★ BUSINESS - TIGHTENING MONEY - AND THE MARKET ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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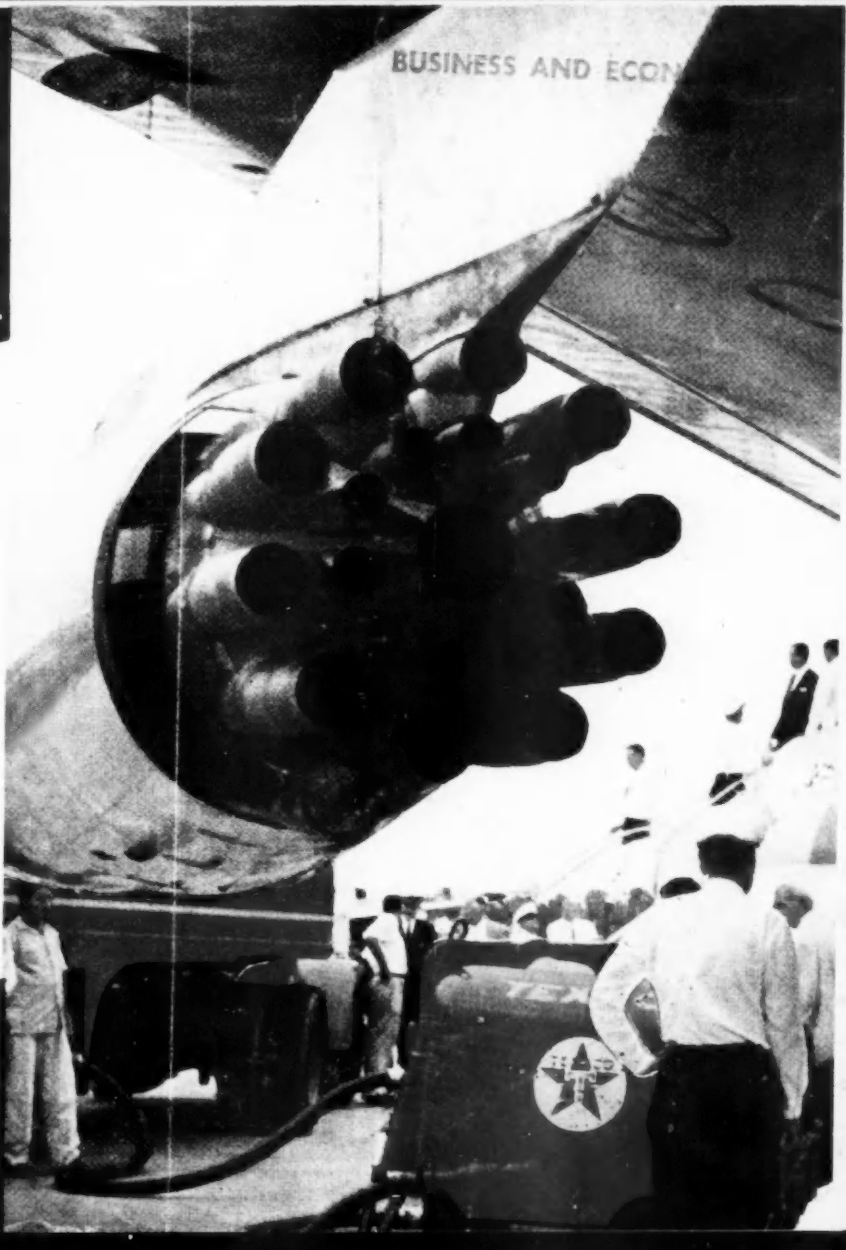

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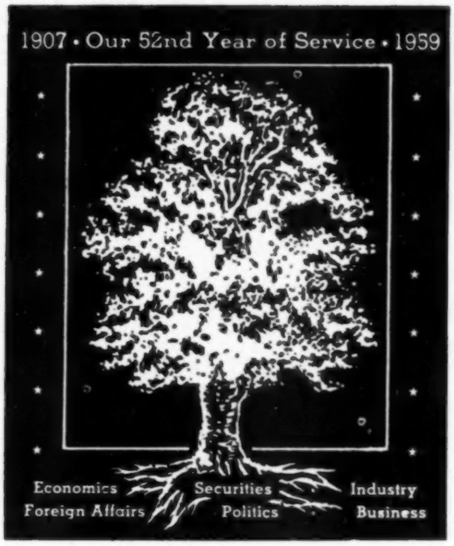
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

TREASURY SEVERELY HANDICAPPED . . . The pressing problem of stabilizing our national debt and placing it on a longer term manageable basis has been sorely aggravated by the action of the House Ways and Means Committee in tabling the proposal to eliminate the ceiling on interest rates, as requested by the president and backed by both William McChesney Martin, Chairman of the Federal Reserve Board, and Robert B. Anderson, Secretary of the Treasury.

The turning down of this proposal does not appear to have been based on merit, for actually four of the Democratic members did an about-face after having approved it. Evidently they did not want their names associated with higher interest rates.

This means that the Treasury will have to continue to resort to short term inflationary financing, for it would be impossible to market long term bonds at rates well below strong corporate issues, and, indeed, virtually riskless obligations such as the government-backed mortgages of the Federal Housing Administration and Veterans Administration.

The seriousness of the situation is also shown by the fact that savings bonds have been cashed in each month since July of last year at a rate exceeding sales. This cannot be permitted to continue, and could be corrected through higher interest rates.

We feel that the House Committee has shirked its responsibility in tabling this important proposal and raised a complex problem which should be placed at the head of the Congressional agenda for action as soon as possible.

CAREY'S THREATS TO MEMBERS OF CONGRESS BOOMERANG . . . In his billet-doux to the 134 Republicans and 95 Democrats who approved passage of the Landrum-Griffin Union Control Bill, Boss Carey, of the International Union of Electrical Workers, threatened to spare no effort to convince workers that these legislators were foes of labor and should be beaten down in the next election.

At the same time, he congratulated the 17 Republicans and 184 Democrats who had opposed the bill, praising their "courage" in resisting White House pressure, and promising to reward them with labor's political support.

The presumption of this man is colossal! Only a man drunk with his own power would have the gall to write such letters to members of Congress.

Resentment in Congressional halls has already brought a sharp reaction — and the realization of how mighty and out-of-hand union leaders have become — how any softening of the bill could eventually lead to a labor dictatorship. Certainly legislators who had been undecided on their vote may well take this brazen attempt at intimidation as a symptom of the overweening ambition and unchallenged grab for power which the Landrum-Griffin Bill seeks to eliminate.

Mr. Carey's letters suggest that the philosophy of labor's money raisers has not changed much since the old days, when they acted under the assumption that "cash contributions on the barrelhead" would bend the lawmakers to their will.

We hope that speedy passage of the Landrum-Griffin Union Control Bill will reprimand Mr. Carey and remind him that ours is not a government by bribe, threat and intimidation.

As I See It!

by Charles Benedict

MASSIVE PROPAGANDA EFFORT IS BEING MADE TO BLOCK ANY CONSTRUCTIVE RESULTS FROM THE KHRUSHCHEV VISIT

ONLY a few weeks ago there was enthusiastic admiration expressed for the commonsense plan whereby Premier Khrushchev and President Eisenhower would exchange visits, so that each could acquire a more realistic viewpoint regarding prevailing conditions and public sentiment in the United States and Russia. Yet today, wherever you go among politicians, labor leaders and socially—and whether you're talking to the doorman, the elevator man, the taxi driver—the opinion is expressed that it would be a terrible mistake for Mr. Khrushchev to come here, and that he should be treated as an unwelcome guest in this country. On every hand, there is now great confusion regarding the desirability of the Khrushchev visit and the likely outcome.

And to cap this mischief, an absurd impression is being created that President Eisenhower and all who are dealing with the situation are naive, and unqualified to cope with the wily Khrushchev—that, in any case, we can expect the worst in appeasement. This insidious propaganda is being spread by sources at home and abroad who have an axe to grind.

The propagandists have shunted aside the fact that Government spokesmen have again and again shown keen realization of the purpose behind Khrushchev's visit to this country, and also made it plain that the gap between what he wants and what he gets, is considerable—that when he sees the realities of our position, as compared with the bunk which has been fed him regarding both our people and our economy these many years, he is bound to recognize that aggression will endanger Russia and administer a death blow to Communism. This shattering of illusions regarding our vulnerability is certain to recast schemes about taking steps that would lead to all out war.

Our experience in dealing with Russia has been very illuminating, and our leaders are fully aware of the dangers involved. They would be blind, indeed, if they did not have great doubts regarding Mr. Khrushchev's sincerity in his approach to the United States, for on every hand we are witnessing intrigue of one kind or another, in an attempt to weaken our position in anticipation of the discussions that are bound to take place when Khrushchev gets here. For example, the background of his disturbing special agreements with Britain; his courting of De Gaulle, who is venting his spleen against unintended slights by the British and the U. S. A. during World War II.

The Russians have even gone so far as to attempt to unsettle the French/German conciliation pact, which Western Europe looks to as a unifying force for peace on the Continent. Spurred by De Gaulle's attitude regarding NATO, the Russians are seeking to intensify dissension over the newly proposed shifts from French bases to Western Germany and Britain, and are offering to replace NATO with a Soviet alliance. As De Gaulle's terms, if he will dicker, are bound to include help in Algeria, the Soviet proposal is just a further attempt at mischief making—(I'm sure De Gaulle remembers what happened last time when France made a deal with Russia, which was influenced by the maliciousness of a disgruntled newspaper man who wanted to get even with Germany for slights he had received).

And recently Khrushchev even tackled "Der Alter" Adenauer to soften him up by offering all of West Berlin, with an open corridor to Western Germany if Allied troops are withdrawn.

Another area of Communist maneuver is right close to our shores, where it is said that a loan is being proffered to Castro, who is bound to use it as a lever for blackmail in his current effort to pry millions from the United States. The Reds have also stirred up the various countries in South America. They are getting stronger in Venezuela, and are now turning their attention to Bolivia by their offer to advance the money necessary for oil exploration in that country.

Indeed, there is no likelihood that President Eisenhower and the American leaders are overlooking the implications of this groundwork, and what it may portend in the talks with Khrushchev—whose main objectives are trade with the United States on products that will ensure success for his seven-year plan, and, at the same time, bring about the disruption of NATO, so that he can eventually soften up the European Governments and over-run their countries.

Nothing is being overlooked to that end—for

Khrushchev is determined to win where Mikoyan and Kozlov failed.

He will therefore make every effort to ensure his success as a matter of pride and to uphold the legend of his greatness. With his people and, in fact, with the whole world looking on, he is bound to make concessions to achieve his goal.

In the meantime, our Government has also been working for every advantage and in a most constructive and telling fashion. No mention has been made by the propagandists of the program we have been carrying on recently in the very heart of Communism. The agreement whereby the United States obtained permission from the Soviets to conduct an American exhibition in Moscow in itself represents a considerable achievement, a nearly unprecedented opportunity, to tell first-hand the story of the United States to the Soviet people. And, since the Russians do not enjoy the benefit of a free press, this opportunity takes on added significance, and will serve to dispel many of the misconceptions the Soviet people have harbored with regard to the United States. The great success of our exhibition and the reception of Mr. and Mrs. Nixon by the people of Poland, has undoubtedly given Mr. Khrushchev food for thought.

A Chance to Let Her Light Shine

And whether he wants to admit it or not, the Communists are losing the good will of the world as a result of the Red Chinese aggression in Tibet, which has alienated the people of Asia and India, and forced Nehru to oust the Communist Government in the Indian State of Kerala. And now the Reds' vicious invasion is imperiling the independence of Laos.

The deteriorating forces that have been set in motion by Red China and Soviet brutality in Hungary are turning the tide of world opinion against the Communist states. For the first time, Mr. Khrushchev is finding himself in the unfamiliar role of being on the defensive. He is beginning to feel the effect of the political and psychological imponderables that are piling up.

Moreover, I am sure he is aware that the Iron Curtain is bound to disintegrate as a result of the increasing contact between peoples under an exchange of ideas and cultures. He will be more inclined therefore to think in terms of the future direction of his Government, for he recognizes that the trend is now turning away from Communism. In spite of the disruptive forces he is building up to put himself in a good position viz-a-viz negotiations with the United States, he is likely to agree to more compromises than are anticipated. I believe this state of mind can be furthered by a well-mannered, adult reception for Khrushchev on his visit to the United States.

(Editor's Note: Our September 12th issue will contain a most important feature, "If the Cold War Eases . . . If it Ends?", by Howard Nicholson, a most practical economic business analyst.)

Business-Tighter Money-and the Market

The market's partial recovery from the recent sell-off may be followed by irregular trading-range fluctuation for a time. Aside from immediate uncertainties, perhaps already allowed for, there are opposing factors in the business — financial outlook. We continue to advise maintenance of longer-term investment positions in good stocks; discrimination and caution in new buying.

By John W. Vandeveer

The recent zig-zag retreat in stock prices was extended into Wednesday of last week without generating increasing selling pressure, and was followed by a sharp rally which quickly subsided into renewed hesitation by the week end. Evidently investors remain generally more inclined to hold stocks, and to buy on reactions, than to liquidate. However, near-term prospects are not clear, pending a test of the summer highs or last week's lows.

Probably the market has made ample allowance for the uncertain implications of the nearing Khrushchev visit, at least until there is some basis for judging its results; and for the prospect that the steel strike might continue well into, if not through, September. Of course, the actual market role played by these two factors is conjectural. Under any circumstances, reactions tend to come more frequently and with some increased violence after a large and protracted market advance.

Technical Pattern Little Changed

In the case of the industrial average, the 12-session fall from the August 3 high to the August 19 low approximated 4.7% in terms of closing levels and 6.5% at intraday extremes. Thus, it was little sharper than the 7-session May 29-June 9 technical dip, with no drastic news events, amounting to 4.1% at closing prices, 5.3% at maximums.

As charted herewith, the indications provided by our market support measure remained positive, altho the favorable margin narrowed through the latest sell-off, without development of a selling signal. In one respect the market made a better showing on the August 19 selling climax than on that of June 9, in that only 55 stocks recorded new lows, against 156 in the earlier instance.

Partly because of normal volatility, partly because of the impact of the steel strike, the fall of the rail average from its July 8 top was about 8.2%. Last Thursday's sharp rebound had the aid both of the technical springboard set up by six weeks of decline and the surprise news of a dividend boost and stock-split by Southern Pacific. But it fizzled out quickly. It is improbable that rail behavior, long inferior to that of industrials, will change importantly.

In line with performance of investment-grade income stocks generally, utilities rose through most of the retreat in other segments of the market, dipped slightly in the forepart of last week, improved thereafter. The average stands near its mid-August recovery

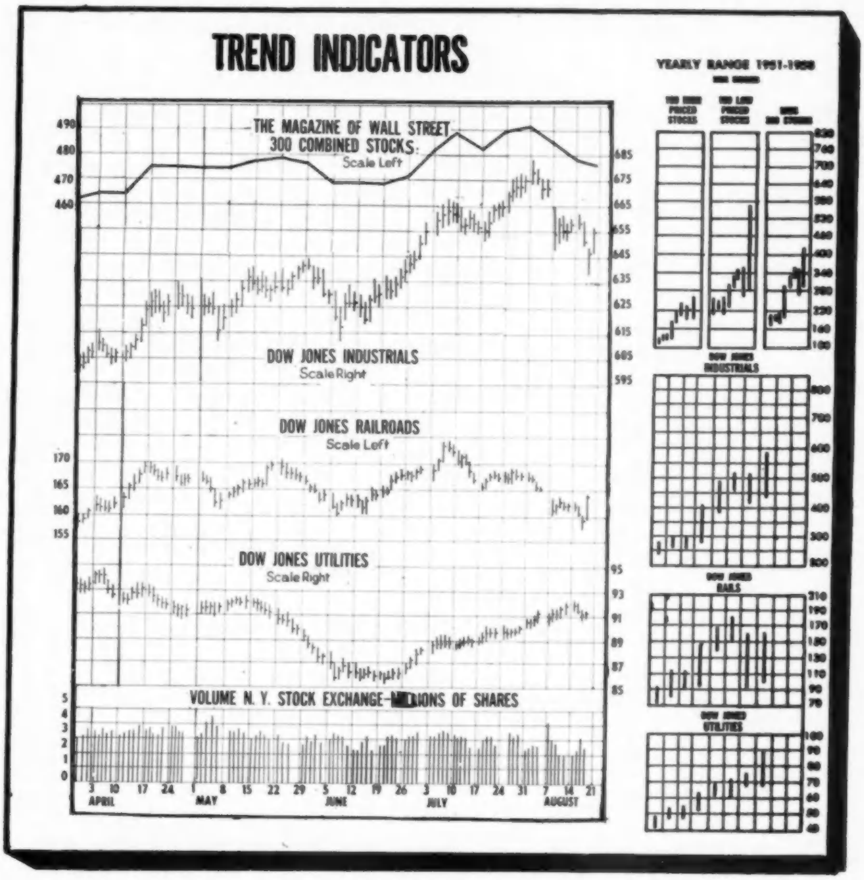
level, at which about 70% of its March-June decline had been made up.

Money Supply Versus Tighter Credit

If there is anything the matter with the market, it is not a shortage of cash for employment in securities. Savings for individuals—especially of the well-to-do—continue to accumulate. The cash flow into pension trusts and mutual funds continues at a high rate. July sales of mutual funds shares exceeded redemptions by about $147 million, against $111.4 million in June.

But the question is what investors will do with cash, taking into account the advanced price-earnings ratios and low yields of most institutional-grade stocks, high and rising money rates and some doubts about 1960 business potentials.

Authority for long-term Treasury financing at market rates has been foolishly denied by the House Ways & Means Committee. So long-term bond yields may not vary much from recent levels over the medium term. They will not attract much cash from stock-minded investors, or much switching from stocks to bonds. But Treasury financing, business needs and the tight-money policy of the Federal Reserve mean a further rise in short-term interest rates.



This can influence investment thinking in two ways: (1) It focuses more attention on the question when credit strengency might begin to put brakes on the business boom; and (2) it enables uncertain investors to defer purchases of common stocks without loss of income, since cash is offered a safe temporary haven in short-term Treasury obligations at yields of up to 4% or more, versus little over a 3% average for industrial stocks.

Adverse Effects of Tight Money

Tight money is already restrictive for residential building, with home starts down slightly in July. The concensus is that 1960 housing activity probably will be less than 1959's. That subtracts from the market for appliances, house furnishings, etc. It accounts for larger-than-average reactions by the building materials and appliance stock groups. How long it might take for credit factors to slow replacement demand for consumer durables is conjectural.

Business capital outlays would be the last affected, since taxes offset over half of interest costs. They might rise for an extended time to come; but the 1960 gain seems likely to be moderate, in view of the general adequacy of industrial and utility capacity.

Up To Consumers

The earlier stimulus of rising Federal spending is lacking. Rate of rise in State and local government spending is relatively static. Annual-rate business inventory expansion will be much under the high first-half 1959 level. Our commercial exports are trending down, imports up. Hence, consumer spending will be the key factor. Whether it will rise more than gradually from the present level, in line with income and with credit factors, is questionable. Certainly, the high rate of buying on instalment seems due for a let-down.

The steel strike has had close to maximum effect on industrial activity, assuming settlement by early October while inventories of most larger users are still sufficient. It will be followed by a production spurt, maybe to a new peak for the index; but current pros and cons suggest undramatic 1960 gains in business and corporate profits.

With their own markets booming, Europeans are putting less money in U.S. stocks, and perhaps taking some out. While still small, more U.S. money is going into foreign stocks. Probably the average institutional fund will buy selectively on dips, reach less aggresively than heretofore for stocks on strength, lean somewhat more to the conservative side in general policy. We suggest a similar course to you. — Monday, August 24.

OUR ANNUAL MID-SUMMER REAPPRAISAL OF COMMODITY PRICE TRENDS

By G. A. KENT

FOODS dominate the commodity price and outlook situation with no present signs of large-scale reversal of the overall strength, *but with a few assured reductions forseeable*, after closer examination of the factors which have kept prices up.

Focus must be fixed on the basis of prevailing conditions if what is ahead is to be accurately evaluated. This is not difficult when visibility is not blurred. It is quite another thing today with problems — strike and residual — within the steel industry whose veins run through the whole economic body, feeding or atrophying (as the case may be), production, employment, and consumer purchasing power. Rephrasing an adage, people must eat to work — possibly in lesser quantity when there is shortage of gainful employment. But eat, they will!

Marketing changes and margins will combine to force prices to the consumer generally upward. For example, THE BILL FOR MARKETING FOOD PRODUCTS has increased by 64 per cent in the past 10 years.

With an annual increase in the percentage of income of the average family allocated to food, there must be curtailment in the number of dollars available at other business stalls, and for other items in the cost-of-living. Labor stoppages and the current high level of tax, contribute to that result. The impact on supply and demand, and on prices is immediate.

From 1947 to 1949 the average annual outlay for food in the United States was $40.8 billion; last year it had jumped to $57.7 billion. Even with a population increase kept in mind, the jump appears disproportionate unless you consider the cost of pack-

aging, precooking, processing and higher cost merchandising.

Our Economy at Midyear

► General business activity expanded rapidly in the second quarter of 1959, although in early July the rate of increase had tapered off as industry approached the normal summer lull. The steel industry was strikebound in mid-July and August, and automobile firms are approaching shutdown for model changeovers. Personal income reached an annual rate of $381.1 billion in the second quarter, up 7 per cent from a year ago. With higher incomes, retail sales in April-June were up nearly 10% from a year ago with the largest gains in durable goods. Employment reached a new record of 67.6 million persons in July. Industrial production at 153 last month, (147-49 equals 100) was 14 per cent above a year ago.

With such a backdrop, here, in thumbnail fashion, is how the commodity price situation shapes up:

► Cattle prices are likely to remain stable during the rest of this year. Some seasonal declines are likely for sheep and lambs this summer, but prices probably will average near those of last year.

► If producers' intentions to increase farrowings this fall materialize—and they likely will—hog prices through next spring will be much lower.

► A limited seasonal increase in egg prices is likely in the next few months.

► Broiler prices in August are likely to exceed the monthly averages to date in 1959.

► Soybean prices this summer probably will average near the 1958 loan rate of $2.09 a bushel, or about the same as last year.

► Production of lard in 1959-60 is likely to be 10 per cent higher than the 2,675 million pounds now estimated for the current marketing year.

► Feed grain prices this summer and fall are expected to remain a little below those of a year earlier because a large 1959 feed grain crop is in prospect and 1959 price supports are generally lower. The August crop report shows that total feed grain tonnage is likely to exceed last year's record supply.

► Supplies of fresh deciduous and citrus fruits are expected to be somewhat greater this summer than last as a result of larger crops of most fruits.

► Farm prices for fresh vegetables and sweet potatoes probably will be about the same as those of last year, if present production prospects materialize.

► Potato prices, now up, are likely to continue to average considerably above the low levels of last summer. A normal drop may be expected with advent of the big fall crop which is about 8 per cent less than the 1959 crop.

► Cotton will be plentiful—the 1959 crop is about 29 per cent larger than last year's crop—and probably will be cheaper. It will have to be cheaper if the government, which will handle at least 80 per cent of cotton marketing this year, hopes to sell much for export.

► Incentive payments for the 1959 wool clip will be substantially below the $85 million estimated for 1958 because of the firming of prices this season.

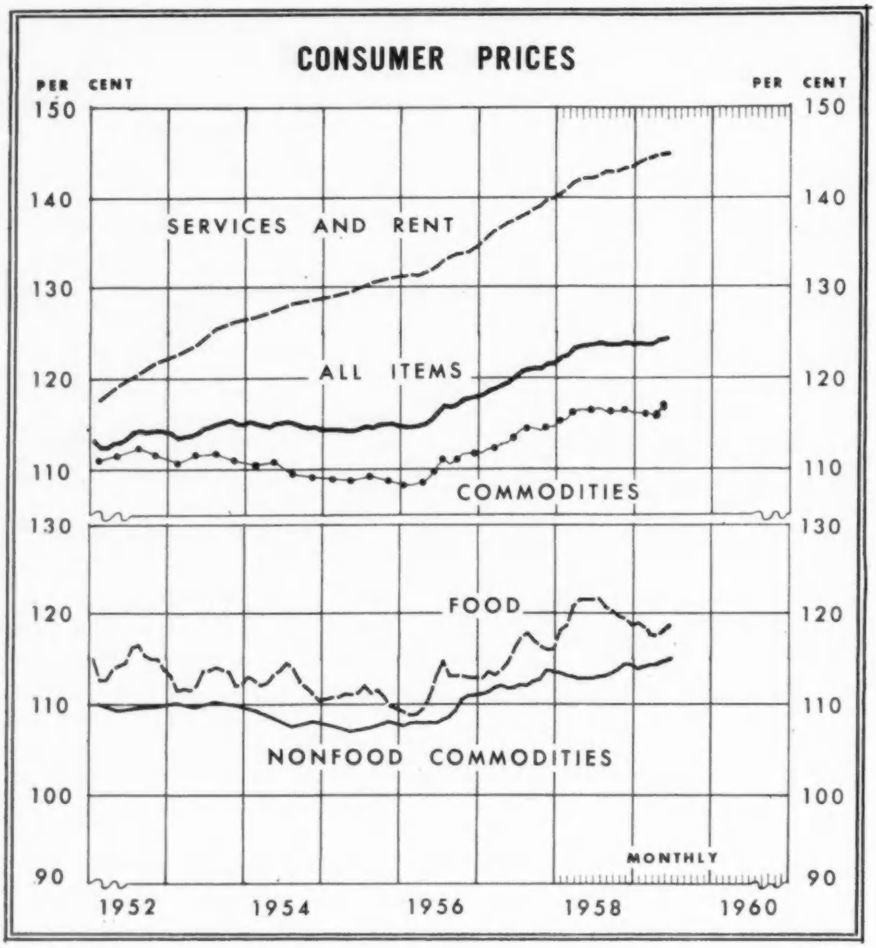
► Indicated production in 1959 of all types of tobacco is about 3 per cent above last year, but the third smallest since 1943.

Cost of Living Index

The Bureau of Labor Statistics' consumer price index in the second quarter of 1959 averaged only fractionally higher than the comparable period a year ago. The farm family living cost index in the second quarter also was up fractionally. In both indexes, lower food prices just about offset increases in the cost of other items. Clothing, building materials, and automobiles purchased by farmers were higher than a year ago. Urban consumers, whose spending patterns are different from farmers, paid substantially *higher prices for services such as rent, transportation, and medical care, than last year.*

Retail sales of *durable goods* were up nearly a fifth in June from a year earlier. The durables included automobiles, appliances, household equipment, and furniture.

Retail sales of *non-durable goods*, which are more closely tied to day-to-day needs of consumers than durables, in June were 5 per cent higher than a year ago. Sales of *clothing* and *shoes* have increased rapidly and in June *retail sales of apparel* were up 13 per cent from a year ago. *Gasoline* and *oil* purchases continued their long term increase and sales of service stations were up 12 percent. *Food and*



alcoholic beverage purchases continued to rise although prices have declined around 3 per cent in the past year. Retail sales of the food group in June were nearly 4 per cent above a year ago.

Prices received for *farm commodities* in mid-July were down 4 per cent from a year ago, the lowest since December, 1957. Primarily responsible for the current decline were lower prices for hogs, potatoes, oranges, beef cattle, and some vegetables.

In contrast with declining farm product prices, *wholesale industrial prices* have increased about 2½ per cent since mid-1958. *Industrial output*, which *increased 17 per cent* since June, 1958, has stimulated demand for industrial products. There has been a sharp recovery in some non-food crude materials which in May were about 6 per cent above a year ago. *Leather* and leather products in June were 19 per cent above a year ago, reflecting a record demand for shoes as well as smaller supplies of hides. The high rate of *homebuilding* has increased prices of lumber and products 11 per cent from June, 1958. In recent months, however, lumber prices have tended to level out as new housing starts have eased a little. Fuel prices have declined in recent months.

What's Back of Price Increases

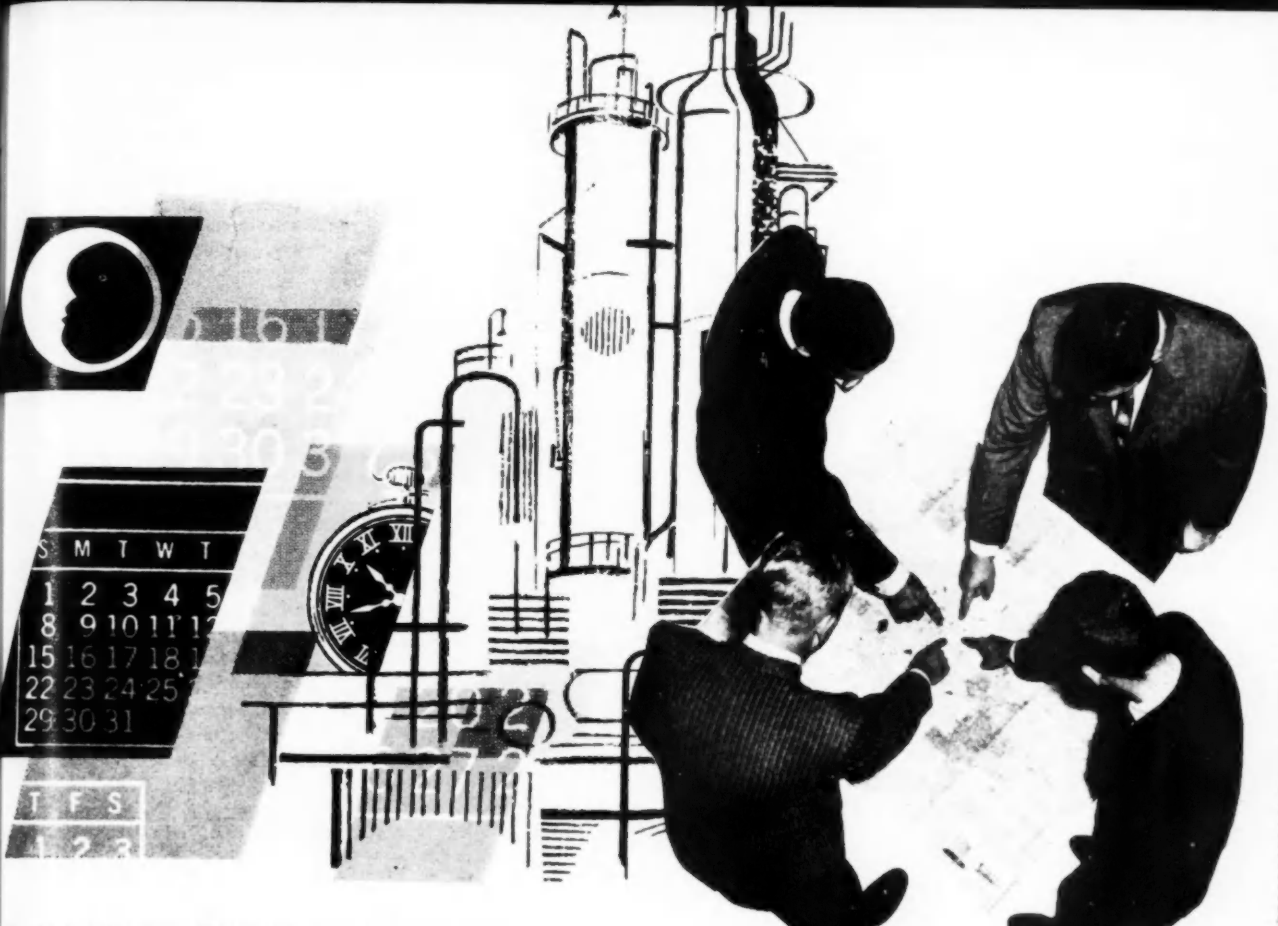
Rising costs in the production of intermediate materials and finished goods have been a factor responsible for the increase in industrial prices. Intermediate non-food materials used for manufacturing in May were up about 3½ per cent for durables and 2 per cent for non-durables from a year ago. Materials, supplies, and components used in construction increased about 4 per cent between May, 1958, and May, 1959. Among the final products, producers' finished goods prices increased about 2 per cent in the past year and those of consumer non-durables other than food were up a similar amount. Part of the rise in wage costs, which amount to about 5 per cent in average hourly earnings of factory workers between mid-1958 and mid-1959, is apparently reflected in the higher prices of intermediate and final products.

More Meat Coming to Market

Government economists believe livestock slaughter and meat production will continue above year-earlier levels during the next few months. Slaughtering of hogs is expected to provide most of the increase. Cattle slaughter may be up a little. Hog prices had declined appreciably by late July, and probably will remain relatively low. Prices of grass cattle are down somewhat and could decline a bit more. Fed cattle prices may change little. Sheep and lamb marketings are expected to be up from last summer and prices likely will average about the same or a little lower than a year ago until late in the year.

Record Hog Crops

Hogs slaughtered in July began to include some from the 1959 spring pig crop which was 12 per cent larger than the 1958 crop. These overlapped with remaining hogs from 1958 fall farrowings. As pork continued to move out of cold storage in July from stocks a third larger than last year, prices of hogs declined. Some price recovery is likely, but because marketings will continue large, it will be temporary. Some further dip in price is probable about mid-fall. But on the whole, the summer and fall season may be marked by considerably less seasonal change in hog prices than usual. The outlook now is for a total pig crop this year of 104.5 million head, 10 per cent more than last year and a peacetime record. Hence, at least through next spring, hog prices will stay below a year earlier. The odds are the price decline will *(Please turn to page 680)*



Mid-Year Dividend Forecast

OIL INDUSTRY FACES PROBLEMS-OPPORTUNITIES on its HUNDREDTH BIRTDDAY

By JOHN H. LIND and ROBERT B. SHAW

- ► **Through the unmatched genius of its leaders, the oil industry sparked undreamed of progress in the 20th century**
- ► **The future that stretches ahead**
- ► **Domestic problems that need solving . . . politics and the international oils**
- ► **Comparing company performance in 1958 with 1959**
- ► **Whats ahead for the companies and the investor**

WHEN Edwin L. Drake, retired railroad conductor, sank the first oil well in Titusville, Pennsylvania, he was merely seeking a substitute for whale oil. He could not have envisaged, even by the wildest stretch of his imagination, that on that fateful day of August 27, 1859, he was tapping a source of energy that would revolutionize our way of life and, indeed, that of the entire world . . . creating a multi-billion dollar industry that would power the tremendous progress of the 20th century.

The oil industry, on its 100th Anniversary, has much to celebrate and be proud of. The modest effort to find a better lamp fuel, which occasioned the accidental drilling of the first well, started a long stream of events that made outstanding contributions to men in all walks of life, and undreamed of prosperity for our own great country and other nations of the world.

Although such events as Drake's discovery of oil are usually neglected in conventional histories in favor of a recitation of battles and elections, the importance of this occurrence can hardly be exaggerated.

- ► Today, oil and natural gas provides 70% of America's total energy needs.
- ► Human drudgery has been banished by a score

Statistical Data on Leading Oil Companies

	1st 6 Months: Net Sales 1958 —(Millions)—	Net Sales 1959	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Per Share 1958	Net Per Share 1959	Full Year: Earned Per Share 1957	Earned Per Share 1958	Dividend Per Share 1958	Dividend Per Share Indic. 1959*	Price Range 1958-59	Recent Price	Div. Yield %
AMERADA PETROLEUM .... W.C. (mil.) '57–$53.7; '58–$54.3	$ 51.0	$ 52.5	19.3	22.2	$. 68	$ .84	$4.74	$3.56	$2.00	$2.00	114⅜- 81	88	2.2%
ATLANTIC REFINING .... W.C. (mil.) '57–$102.3; '58–$83.6	264.4	277.5	2.9	5.9	.78	1.74	3.82	3.61	2.00	2.00	53¼- 34	45	4.4
BRITISH AMERICAN OIL .... W.C. (mil.) '57–$77.9; '58–$114.7	N.A.	N.A.	N.A.	N.A.	.33	.41	1.74	1.00	1.00	1.00	46¼- 34⅜	40	2.5
BRITISH PETROLEUM .... W.C. (mil.) '57–$52.5; '58–$80.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	.71	.85	.20	.23	8¼- 5⅝	8	2.8
CITIES SERVICE .... W.C. (mil.) '57–$344.7; '58–$310.2	518.7	507.9	3.4	3.7	1.72	1.76	5.63	4.18	2.40[3]	2.40[3]	64¾- 44⅜	55	4.3
CONTINENTAL OIL .... W.C. (mil.) '57–$104.2; '58–$120.9	355.4	380.6	.5.8	7.6	1.03	1.38	2.38	2.41	1.60	1.60	69¾- 38⅝	57	2.7
CREOLE PETROLEUM .... W.C. (mil.) '57–$43.7; '58–(d)$43.1	N.A.	N.A.	N.A.	N.A.	1.51	1.49	5.11	3.04	3.60	2.60	78⅞- 46¼	50	5.2
GETTY OIL .... W.C. (mil.) '57–$19.7; '58–$14.3	[5]8.6[6]	[5]9.3[6]	N.A.	N.A.	.43[5]	.17[5]	.93	.79	—	[4]	30¼- 20½	22	—
GULF OIL .... W.C. (mil.) '57–$450.0; '58–$565.5	1,302.2	1,343.5	10.8	10.5	3.72	4.38	11.38	10.17	2.50[3]	2.50	129 -101	114	2.1
HUMBLE OIL .... W.C. (iml.) '57–$76.5; '58–100.5	578.3	670.5	9.8	13.2	.79	1.23	2.45	1.89	1.40	1.40	74½- 41½	61	2.3
IMPERIAL OIL .... W.C. (mil.) '57–$231.8; '58–$229.2	395.6[1]	N.A.	6.1	N.A.	.77[1]	.74[1]	2.29	1.61	1.20	1.20	49⅞- 39⅛	42	2.8
KERR-McGEE OIL IND. .... W.C. (mil.) '57–$38.0; '58–$35.0	91.2[2]	99.0[2]	4.1[2]	4.6[2]	1.36[2]	1.71[2]	2.31	1.94	.80	.80	70⅜- 38	55	1.4
OHIO OIL .... W.C. (mil.) '57–$64.8; '58–$78.3	133.4	143.9	11.3	12.8	1.15	1.41	3.16	2.45	1.60	1.60	46½- 28½	41	3.9
PHILLIPS PETROLEUM .... W.C. (mil.) '57–$211.5; '58–$217.1	512.4	597.5	7.1	8.9	1.06	1.55	2.80	2.45	1.70	1.70	52¾- 36⅜	48	3.5
PLYMOUTH OIL .... W.C. (mil.) '57–$17.2; '58–$16.4	43.2	48.5	3.5	4.5	.61	.85	2.40	1.79	1.20[3]	1.20	32¼- 21⅞	28	4.2
PURE OIL .... W.C. (mil.) '57–$118.3; '58–$119.3	237.4	253.2	4.4	5.1	1.24	1.51	4.13	3.35	1.60	1.60	48⅛- 29	42	3.8
RICHFIELD OIL .... W.C. (mil.) '57–$82.7; '58–$124.8	123.2	131.3	8.6	8.1	2.60	2.65	7.04	5.00	3.50	3.50	111 - 55	83	4.2

W.C.—Working capital.
N.A.—Not available.
*—Based on latest dividend rate.

1—Canadian dollars.
2—9 months ended March 31.
3—Plus stock.

4—1/20 sh. of Spartan Aircraft Co.
5—First quarter.
6—Gross operating income.

of mechanical servants in every household.

- ► Five million farmers, using tractors and other machines, produce all the food needed by a nation of 180 million, whereas in Drake's lifetime nearly everyone had to be a farmer.

- ► The most conspicuous fruit of the gasoline age has undoubtedly been the automobile and other forms of transportation — the diesel-powered locomotive and steamship, and, of course, the airplane.

- ► In a multitude of other uses, as lubricants and sources of heat, light and power, petroleum products contribute daily to our comfort and convenience.

- ► More than half of the value of all chemical products is petroleum - derived, and this is when the chemistry of hydrocarbons is as yet hardly beyond its infancy.

And a New Future Stretches Ahead

But fascinating as the history of the oil industry has been, attention must swing to new accomplishments still to be looked for in the future. To be sure, rival fuels have put in an appearance in recent years. Atomic energy is passing beyond experimental stage. The limitless possibilities of solar power tax the imagination. Even coal is making a partial comeback.

Each of these energy sources will find their appropriate spheres. But the likelihood of any widespread displacement of oil in the indefinite future is remote. Thus, the petroleum industry is entering its second century in full vigor, with a still tremendous growth potential and the promise of many more decades of useful service.

Statistical Data on Leading Oil Companies — (Continued)

	1st 6 Months: Net Sales 1958 (Millions)	Net Sales 1959 (Millions)	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Per Share 1958	Net Per Share 1959	Full Year: Earned Per Share 1957	Earned Per Share 1958	Dividend Per Share 1958	Dividend Indic. 1959*	Price Range 1958-59	Recent Price	Div. Yield %
ROYAL DUTCH W.C. (mil.) '57–1,024.0; '58–$1,235.6	[1]$735.7[3]	[1]$769.9[3]	[1]8.4[3]	[1]8.1[3]	[1]$ .90[3]	[1]$ .91[3]	6.08	$3.91[3]	$1.32	$1.32	53⅛- 37¼	44	3.0%
SHELL OIL W.C. (mil.) '57–$293.7; '58–$299.7	800.0	894.2	5.7	7.7	1.78	2.28	4.46	3.85	2.00	2.00	90¼- 58	80	2.5
SINCLAIR OIL W.C. (mil.) '57–$303.9; '58- $296.0	592.4	621.1	4.1	4.3	1.46	1.76	5.18	3.23	3.00	3.00	67⅞- 46⅜	60	5.0
SKELLY OIL W.C. (mil.) '57–$65.6; '58–$57.1	122.4	131.1	8.6	11.0	1.84	2.53	6.40	4.82	1.80	1.80	74¼- 48	69	2.6
SOCONY-MOBIL W.C. (mil.) '57–$704.1; '58–$661.7	104.5	125.2	6.0	6.1	1.30	1.59	4.56	3.24	2.00	2.00	52½- 42⅞	45	4.4
STANDARD OIL CALIF. W.C. (mil.) '57–$297.2; '58–$426.4	751.2	758.5	15.5	15.5	1.85	1.87	4.56	4.08	2.00	2.00	62⅛- 43¼	52	3.8
STANDARD OIL IND. W.C. (mil.) '57–$414.2; '58–$580.2	911.5	985.6	5.7	8.0	1.47	2.20	4.24	3.29	1.40[4]	1.40[5]	52½- 35½	48	2.9
STANDARD OIL N. J. W.C. (mil.) '57–$1,760.5; '58–$1,587.8	3,720.0	3,956.0	6.6	7.9	1.22	1.47	3.96	2.62	2.25	2.25	60¼- 47½	52	4.3
STANDARD OIL OHIO W.C. (mil.) '57–$58.0; '58–$62.9	174.1	183.6	6.5	7.2	2.29	2.67	4.79	4.82	2.50	2.50	64⅞- 42⅝	57	4.3
SUN OIL W.C. (mil.) '57–$128.0; '58–$133.4	334.6	385.3	3.4	5.7	1.01	1.87	4.17	2.73	1.00[5]	1.00	69 - 57⅜	60	1.6
SUNRAY-MID.-CONT. W.C. (mil.) '57–$88.8; '58–$87.7	180.9	193.4	10.6	10.3	1.01	1.05	3.09	2.14	1.32	1.32	29⅞- 20⅜	26	5.0
TEXACO W.C. (mil.) '57–$595.7; '58–$627.4	N.A.	N.A.	N.A.	N.A.	2.37	2.79	5.94	5.31	2.35	2.75	89 - 55¾	86	3.2
TEXAS GULF PROD. W.C. (mil.) '57–$9.3; '58–$10.5	N.A.	N.A.	N.A.	N.A.	.40	.52	1.70	.99	.60	.60	39¼- 22⅜	34	1.7
TEXAS PAC. COAL & OIL W.C. (mil.) '57–$6.6; '58–$10.4	10.8	13.2	2.1	2.7	.65	.94	2.01	1.61	1.00	1.00	39¾- 24⅞	29	3.4
TIDEWATER OIL W.C. (mil.) '57–$86.2; '58–$95.3	N.A.	N.A.	N.A.	N.A.	d .09	1.24	2.54	d .03	[6]	[6]	29½- 20	25	—
UNION OIL of CALIF. W.C. (mil.) '57–$161.3; '58–$167.3	197.9	208.3	5.7	5.1	1.46	1.32	4.95	3.18	1.70[5]	1.00[5]	54⅜- 40⅝	50	2.0

W.C.—Working capital.
*—Based on latest dividend rate.
d—deficit.

1—1st quarter; based on new-accounting policy.
2—Based on 60,818,000 shares.
3—Based on 68,421,000 shares after financing.
4—Plus 1/200 sh. of S.O.N.J., equal to $.30 cash.

5—Plus stock.
6—5% in stock.

Comparing 1958 With 1959

Progress is, of course, always irregular, and within the last two or three yars the oil industry has suffered from some difficult problems. For its performance in the first half of the current year, however, it can take a certain degree of satisfaction. In step with the generally rebounding economy, oil has rolled up some healthy gains, as compared with the same period of last year. The midyear reports now coming off the press show an almost uniform picture of improvement, even of prosperity. Several companies, including Jersey Standard and Indiana Standard, were able to report the best first-half profits in their history, although the latter was subsequently hit by an extended strike, only recently settled. Near-record gains were enjoyed by Socony, Phillips, British American, Anderson - Pritchard, Ohio and Sunray-Midcontinent. Most of the industry members registered improvement of at least 10% above the year-earlier period.

But these accomplishments, while encouraging for an industry only recently in the doldrums, should not give rise to any undue optimism. The performance of the industry in the first half of 1959 is impressive only when measured against the unsatisfying results for 1958. True, the increase of about 6% in demand for petroleum products during the half is actually broader than was expected at the beginning of the year. This was largely due, however, to an exceptional upsurge in sales of residual fuel oil, the industry's least profitable derivative. Gasoline, the number one money earner of nearly all refiners, has shown an expansion in demand of only 4.5%, certainly less than exciting.

What has plagued the industry during its period

of recovery has been a continued excess of supply over demand. While the latter was up by 6% in the recent half, domestic production was boosted a full 11% over the comparable 1958 period. Worse, imports were lifted at least 11%, although these were concentrated in the fuel oil sector and resulted largely from last minute efforts to beat the gun in the import restrictions program which the government introduced in April. As a result of both factors, stocks of crude oil and products have increased substantially since the beginning of the year, during a period within which they should have normally been reduced. This surplus has caused an inevitable deterioration in crude oil and products prices. In fact, at midyear 1959, after some improvement last fall and winter, products prices were back down to the recession lows of a year ago.

Fortunately, the supply - demand picture shows signs of at least moderate amelioration in the second half. For one reason, the import restrictions are beginning to show an impact. Crude imports east of California during the second quarter, for example, remained at exactly the same level as in the corresponding 1958 period, nothwithstanding the increase in demand. Residual fuel oil imports have actually declined sharply in the same quarter, creating a distinct possibility of a fuel oil shortage next winter. Much depends here on the duration of the steel strike, since the steel industry is a substantial user of the residual fuel. Again, domestic crude oil production has been cut back greatly; in Texas, which accounts for 40% of the nation's output, wells were restricted to nine production days in both July and August. If these measures do finally bring supply and demand back into a reasonable balance, the oil industry will again be in an excellent position to profit from the steady growth in the consumption of its products.

Domestic Problems That Need Solving

Even then the industry would still have to face a number of basic problems which are likely to affect its earnings. Conspicuous among these is the competition between oil and natural gas. Since both oil and gas are generally produced by the same companies, it may be imagined that any switch by consumers from one fuel to the other will not affect oil producers as such. But this argument misses one important point. The well-head price of natural gas is restricted by the Federal Power Commission, while the price of crude oil is determined by market forces. The result is that, in terms of energy units, oil sells at approximately five times the price of natural gas. Hence, a producer who loses oil outlets to gas also loses earnings. And for that important segment of the industry engaged solely in refining and marketing the loss is even more painful. The following table points out that the share of natural gas and gas liquids in supplying America's requirements of petroleum hydrocarbons has increased from 40% to 43%, while domestic crude oil has declined from 50% to 46%. The table also shows that three-quarters of the market lost by domestic crude oil in the last decade went to natural gas and gas liquids and only one-quarter to imports.

But again, there is a distinct silver lining around this cloud. The further expansion of natural gas seems destined to take place at a much more conservative pace than it has heretofore. The reason is that most of the country's consuming areas have now been connected to pipelines. Thus, in the future the growth of this fuel will be more nearly in line with that of the nation's overall energy consumption.

SUPPLY OF ALL PETROLEUM HYDROCARBONS BY SOURCE

	Average for Last 10 Years	1959*
	Percent of Total	
Domestic Production:		
Crude Oil	50	46
Nat. Gas & Gas Liquids	40	43
Total Domestic	90	89
Imports	10	11
Total	**100**	**100**

* Estimated

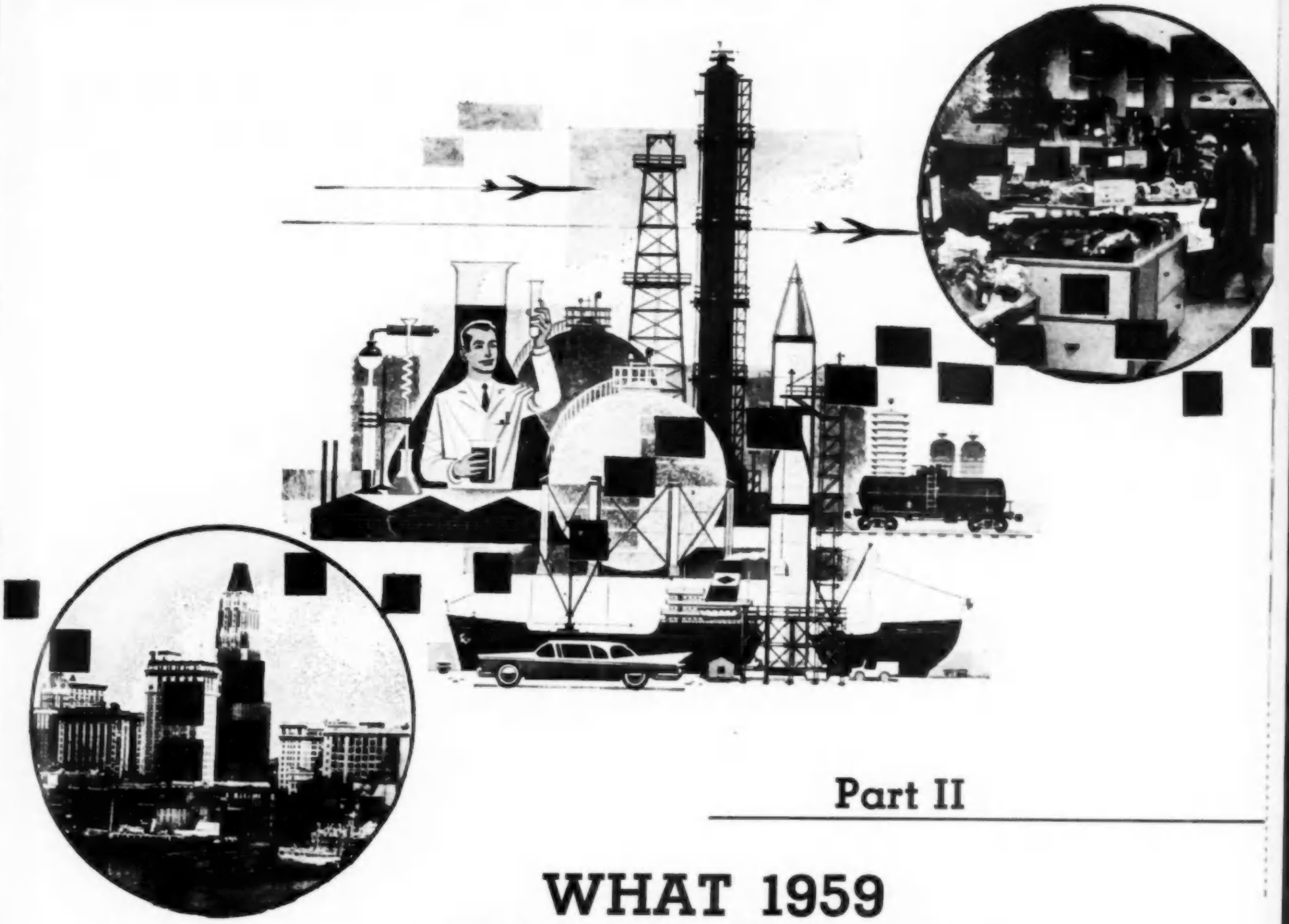
In Summary

Domestic oil producers have managed a remarkable comeback from last year, despite continued oversupply and a very weak price structure. The situation promises to improve further in the second half. On the other hand, earnings of the group are unlikely to increase spectacularly both because significant crude oil price increases in the foreseeable future are still unlikely (one large company, Atlantic Refining, has just reduced its offering price for southwest Texas crude) and because the increase in demand in the next couple of years will probably be somewhat more moderate than the industry has become used to during the flamboyant first decade of the postwar period.

Integrated Companies

Integrated domestic companies have the better outlook, since products prices are quite likely to improve in the second half of the year, if the aforementioned reduction in excess stocks takes place in line with expectations. Refinery margins, now very low, are therefore likely to improve moderately. The trend for the merger of excess crude oil suppliers with refiners with a crude oil deficit will also continue.

The most important of these mergers, that of Texaco and Superior, was discussed in a recent article in this magazine. Also significant was the tie-up between Ohio Oil and Aurora. Among mergers in the making are the proposed Tidewater-Skelly combination. This trend is a reflection of the increasing difficulty faced by producers lacking established marketing outlets. Although crude production remains the main source of profits in the industry, more and more producers are finding that ownership of large reserves is no longer enough. A reliable consumer distribution system is equally important. An additional consideration encouraging mergers arises from the import quotas. Since any established refiner is entitled to an import quota, any crude oil producer merging with a refiner automatically becomes an eligible importer. The considerably larger profit margin on imported crude oil than on most domestic crudes thus becomes a powerful argument for mergers. *(Please turn to page 673)*



Part II

WHAT 1959 SECOND QUARTER EARNINGS REPORTS REVEAL

—Looking to 3rd and 4th Quarter

By ROBERT M. DORR

NOTHING in the earnings reports appearing since our previous issue went to press calls for any modification of the appraisal of June quarter results contained in the first installment of this article. It was stated therein that "from all indications the June quarter showed the best improvement since the end of World War II and carried total corporate profits close to a $50 billion annual rate." This—which, labor union leaders should note, is a measure of profits before both the corporate and the personal income tax—compares with aggregate corporation income of $37 billion last year and a previous record of $45 billion in 1956.

The 50 representative companies whose quarterly results are shown in the accompanying table enjoyed a substantial boost in their average profit margin to 7.7% for the latest quarter versus a rather austere 5.4% for the June quarter of 1958. Such gains were, moreover, typical rather than merely average. This is demonstrated by the fact that, of the 102 companies covered in this and the preceding article, all but six reported year-to-year income gains for the recent June quarter. Of these six recalcitrants, only a single one, **Douglas Aircraft**, showed a material setback. Again, only 19 of the 102 companies failed to show a second quarter earnings improvement over the first quarter of the present year; in only two of these cases, Douglas and **American Machine & Foundry**, was the decline of more than nominal proportions. Douglas' problems were commented upon in our last issue. AMF, a current favorite, suffered no decline in sales and rentals from its first to second quarters, but as a result of its rapid expansion, which currently includes the formation of Italian and Australian subsidiaries, was unable to control its profit margin. The soon-to-be-split shares of this manufacturer of pinsetting and cigarette-making machinery are undoubtedly high but should still reward

Quarterly Sales, Profit Margins and Earnings of Selected Companies

	Second Quarter 1959 Net Sales (Millions)	Second Quarter 1959 Net Profit Margin	Second Quarter 1959 Net Per Share	First Quarter 1959 Net Sales (Millions)	First Quarter 1959 Net Profit Margin	First Quarter 1959 Net Per Share	Second Quarter 1958 Net Sales (Millions)	Second Quarter 1958 Net Profit Margin	Second Quarter 1958 Net Per Share
American Can	$ 283.4	4.8%	$ .83	$ 227.0	3.4%	$ .45	$ 249.4	4.4%	$ .67
American Cyanamid	151.6	9.2	.66	145.8	8.8	.62	124.8	5.4	.32
American Home Products	101.7	11.4	1.52	111.8	10.3	1.51	90.0	11.6	1.38
American Machine & Foundry	65.0	5.1	.90	57.6	8.7	1.40	49.6	3.9	.56
Babcock & Wilcox	96.4	5.9	.92	77.8	5.7	.72	99.5	2.9	.47
Bethlehem Steel	832.2	8.8	1.59	615.9	8.0	1.06	506.0	5.7	.61
Clark Equipment	58.7	7.3	1.81	44.3	5.4	1.01	36.3	4.5	.69
Colgate-Palmolive Co.	150.5	4.3	.75	141.6	3.5	.61	137.1	2.8	.51
Consolidation Coal	67.5	7.4	.55	78.1	6.6	.57	60.1	6.5	.43
Crown Zellerbach	136.6	7.9	.77	120.7	6.9	.58	114.8	6.7	.54
Deere & Co.	175.1	10.3	2.67	102.6	7.0	1.08	139.1	8.5	1.68
Electric Storage Battery	32.5	3.8	.74	29.8	2.9	.53	27.7	2.4	.41
Food Machinery & Chemial	97.2	7.3	1.01	86.8	5.0	.63	86.6	5.7	.73
Georgia-Pacific Corp.	50.4	8.4	.81	39.3	7.0	.53	39.1	5.3	.47
Gillette Co.	51.4	14.1	.78	46.2	14.7	.73	48.6	13.4	.70
Goodyear Tire & Rubber	442.1	5.3	2.18	370.5	4.5	1.57	339.7	4.8	1.55
Hercules Powder	73.0	9.2	.79	64.1	7.6	.57	59.9	7.3	.51
Industrial Rayon	15.7	1.8	.30	15.4	1.7	.14	10.2	d8.3	d.46
International Harvester	425.5	8.2	2.42	173.0	d2.0	d.36	288.4	4.3	.79
International Nickel	115.8	18.4	1.47	96.6	17.5	1.16	80.4	11.4	.63
International Paper	266.3	8.3	1.68	239.1	7.5	1.37	223.1	6.3	1.07
Johns-Manville	101.5	10.1	1.24	74.7	6.2	.56	85.7	7.6	.79
Joy Manufacturing	24.9	5.4	.76	22.9	5.2	.65	16.7	d3.3	d.31
Koppers Co.	61.8	2.5	.62	51.9	1.9	.38	66.8	1.7	.44
Link Belt	41.0	4.6	1.00	36.9	4.0	.80	36.2	3.8	.74
Lorillard (P.)	126.5	5.9	1.11	113.8	5.4	.91	117.1	5.3	1.04
McGraw-Edison	70.4	5.4	.69	60.9	4.3	.47	58.0	4.1	.47
McKesson & Robbins	160.9	1.6	1.32	153.4	2.1	1.69	144.9	1.4	1.07
Minnesota Mining & Mfg.	108.3	13.1	.84	102.3	12.8	.78	91.0	10.7	.58
Motorola	65.2	5.1	1.69	63.6	4.1	1.35	43.6	1.8	.41
National Biscuit	106.5	5.5	.86	101.4	5.1	.74	103.3	4.9	.74
National Dairy Products	375.9	3.6	.98	362.8	2.7	.70	364.0	3.6	.97
National Gypsum	64.1	12.2	1.25	42.1	10.4	.98	39.6	9.3	.86
Owens-Illinois Glass	143.8	8.1	1.52	123.3	6.3	.98	133.1	7.4	1.27
Pfizer (Chas.) & Co.	62.3	8.1	.31	60.5	10.5	1.17	53.1	9.5	.31
Phelps Dodge	92.1	15.2	1.46	81.4	15.5	1.25	59.1	11.1	.71
Philco Corp.	85.7	9.3	.17	95.5	1.6	.37	75.8	d1.9	d.11
Reynolds Metals	106.8	8.7	.86	111.8	8.0	.74	127.6	8.4	.79
Rohm & Haas	58.8	11.4	6.09	50.5	10.8	4.58	44.3	7.7	3.11
St. Joseph Lead	25.2	6.2	.58	19.5	10.5	.76	16.1	d1.3	d.08
Schering Corp.	19.1	13.0	.60	19.8	13.6	.65	18.0	13.4	.59
Scott Paper	74.2	8.1	.75	72.4	8.1	.73	71.0	7.8	.69
Sperry Rand	274.7	3.2	.31	292.1	3.0	.31	210.0	1.9	.13
Texas Instruments	51.4	6.4	.86	29.9	8.0	.74	21.7	4.7	.32
Trane Co.	21.4	5.2	.52	16.5	3.5	.27	19.5	6.5	.60
U. S. Gypsum	81.2	16.5	1.67	63.9	14.7	1.16	66.0	14.5	1.19
Vanadium Corp. of Amer.	20.7	4.4	.63	14.8	4.5	.53	11.3	3.5	.63
Warner-Lambert Pharm.	44.1	7.5	.62	43.4	7.9	1.27	38.7	5.8	.42
Youngstown Sheet & Tube	244.2	7.0	4.95	182.9	6.3	3.33	124.1	3.4	1.23
Zenith Radio	47.6	3.3	.54	59.2	5.6	1.12	32.2	2.9	.32

d—Deficit.

the investor who is willing to exercise patience.

Against the Uptrend

Aside from the aircrafts, the only industry to show earnings hesitation as a group was the drugs. **McKesson & Robbins, Parke Davis, Pfizer, Schering, Smith, Kline & French, Upjohn** and **Warner Lambert** all reported second quarter earnings below, but only slightly below, those for the first quarter; only **Rohm & Haas** among the ethicals violated this trend. With the exception only of Schering and Upjohn all of these drugs reported sales gains in the second over the first quarter, but not enough to resist the pressure of rising costs. The drugs of course, have also been popular stocks in recent months, but with the intensifying competition it is not to be expected that earnings growth can continue at its past rate. To assure the discovery of new products which bring the highest profit margins these pharmaceutical manufacturers must plow very substantial funds back into research, although administrative costs, as well, seem to have bulked heavier in the recent quarter. Pfizer, the only company in the group which failed to report at least a moderate gain in earnings above last year's June quarter, also attributed this failure of earnings to keep pace with the sharp rise in sales as "due to continued weaknesses in the prices for penicillin, streptomycin, steroids and bulk vitamins." Like the other pharmaceuticals, however, Pfizer looks for better results on drugs just emerging from the laboratory, as well as new economies when foreign plants now under construction are completed.

A Relative Set-back

The dubious distinction of the sharpest drop from first quarter to second quarter earnings, from 37¢ to 17¢ a share, belongs to **Philco Corporation**. Sales declined about $10 million, from $96 to $86 million, and the company also felt obliged to cut prices on its new line of portable television models. However, emphasis on the quarter-to-quarter comparison gives only a limited perspective. Philco, topheavy with independent manufacturing divisions, underwent a major reorganization last year, and its reversal of a five-year declining earnings trend is a creditable accomplishment. The future outlook is also cheered by the current excellent demand for standard TV's. Just the same, conservative investors should avoid this non-dividend paying issue. These brief remarks come close to exhausting the bad news—"bad" only in a relative sense—in the current quarter.

Generally High Earnings Shown

Let's jump to some of the companies that have shown the most conspicuous gains. No less than 31 of the 102 representative companies more than doubled their earnings from last year's to this year's June quarter; this includes five organizations which happily crossed the gap from the deficit side of the ledger into black ink territory. The principal industries among which these wider gains were shown include *automobiles* and *automotive equipment, agricultural machinery, metals, steels* and *textiles*. The steels were commented upon in the preceeding issue; however, **Bethlehem** and **Youngstown Sheet & Tube,** whose earnings have subsequently appeared, showed even broader year-to-year profit gains than all of the earlier reporters except Jones & Laughlin. These rebounding earnings have come at just the right time to provide Mr. McDonald of the Steelworkers Union with some heavy ammunition in his contest for sharp wage boosts; Mr. McDonald is indifferent to the large proportion of profit that must be plowed back into plant costing considerably more than even five years ago in order to maintain an adequate steel capacity. Steel stocks continue to look attractive on a long-term basis, but it would seem wise to withhold purchases in the face of the present strike.

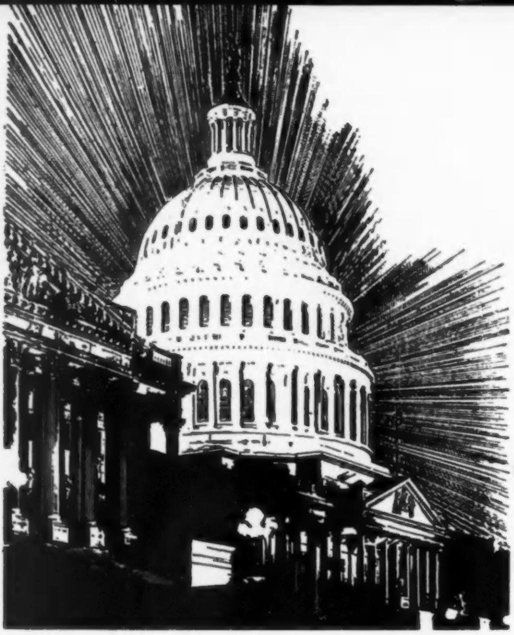
The *non-ferrous metals* have also shown a surprisingly good performance in the June quarter. Reinforcing Kennecott's sharp recovery, already reported, **Phelps Dodge** has now posted a smilar gain to $1.46 a share from 71¢ a year ago and **International Nickel** to $1.47 from 63¢, while **St. Joseph Lead** emerged from last year's red ink with a showing of 58¢ a share for the recent quarter. These gains were not unexpected, as copper climbed to 30.1¢ per pound in the second quarter of 1959 vs. an average price of 23.5¢ a year ago.

Recently, however, the price of copper has weakened again and is, in fact, being protected from a sharper decline only by the shut-down of several large mines by labor disputes. Over a longer period copper is expected to continue to lose ground to aluminum, and the stocks cannot be considered attractive for growth. International Nickel, although also an important copper producer, is primarily dependent upon its namesake metal, for which the future looks bright.

St. Joseph Lead's favorable March and June quarter performance was impressive, as lead has not had the benefit of the same price increase as copper. St. Joseph, a primarily domestic company, also suffers from the relatively heavy imports of the soft metal. These factors make the outlook for the remainder of the year not too encouraging. However, the company will shortly be mining lower-cost domestic reserves of both lead and zinc, is prospecting for oil in the Gulf Coast area, and is expanding its foreign interests. These developments make the stock attractive on a speculative basis.

The agricultural machinery manufacturers, as represented by **Deere** and **International Harvester,** both showed continuing marked improvement in their April quarters. Deere's net income expanded to a new quarterly record of $2.67 a share from $1.68 a year earlier and $1.08 for the preceding quarter. International was able to snap back sharply from a protracted strike which halted operations around the year-end and caused a net loss in the January quarter by emulating Deere with new quarterly records for both sales and earnings. Strangely enough, both companies suffered a drop in foreign sales during the April quarter, and the excellent results reported were accomplished entirely on the basis of domestic operations. However, it cannot be expected that earnings of these two companies will continue to expand at their recent rate.

The textile industry, including **Industrial Rayon,** is finally able to contemplate a brighter horizon. Rayon has suffered doubly from the protracted depression in textile fabrics and the progressive replacement of rayon by nylon in tire fabric. As a consequence its sales have shown a declining trend since 1955. Now, however, the general *(Please turn to page 675)*



Inside Washington

By "VERITAS"

CONGRESSIONAL deadlines that should be watched by business organizations concerned with government contracts are Sept. 30, 1960 and March 31, 1961. The first of these relates to the study of procurement practices, and the second is the date for completion of the contract renegotiation study. The projects dovetail in major particulars. Information gathered by the congressional probers in their inquiry into government buying practices will be available to the study group for renegotiation. The sequence is normal. The conclusions which Congress ultimately writes into law are likely to treat both problems as a single whole.

WASHINGTON SEES:

Industries which have been polluting streams by dumping untreated waste, or otherwise, have been put on notice that they had better start making plans to correct the obuses or they will be hit heavily by Government orders. The Department of Health, Education, and Welfare means business! And H-E-W has all the statutory power it requires.

Latest to feel the lash is the City of St. Joseph, Mo., and 18 meat-packing and other industrial plants. They have been commanded to work out adequate and effective municipal and industrial sewage and waste collection, treatment, and disposal facilities. Deadline is June 1, 1963. The directive folows closely on the heels of an order to Sioux City, Ia., and 10 meat processing facilities in that city, to clean up.

H-E-W is proceeding within the terms of the 1956 Federal Water Pollution Act. Including the Sioux City and St. Joseph proceedings, inquiries have been instituted leading to possible de-contamination steps against 215 industrial establishments, 83 municipalities, 18 states, and 1553 miles of watercourses on eight major waterways. The estimated cost of construction needed to remedy pollution in areas where enforcement action already has been taken exceeds a half-billion dollars. The Federal Agency would move faster if it had more funds for surveys. A pendnig bill will remedy that deficiency.

PROCUREMENT practices have been under fire for many years. The incentive-type deal has been termed wasteful and against the best interest of Government. This is the method under which a contractor shares in the savings he is able to affect under target price. But the Pentagon regards it both efficient and economical. Cost-plus a fee, straight bid, and negotiated contracts all have their critics. If the complaint is confined to specific instances the argument holds good. But the important fact is that no single plan can cover the myriad defense procurement actions which range all the way from canned meat balls to orbiting bombers.

RENEGOTIATION originally was a part of procurement made necessary by the imperativeness of production before discussion. Seventeen years ago the need was for implements of defense and for a time the money figure was little more than an estimate, so understood on all sides. The drift away from that concept has been constant. The switched attitudes have led to conflict and, say Pentagon chiefs, can interfere with a systematic defense pattern. Renegotiation is to a degree an admision of inability on the part of supposed experts to agree on elements of production cost. That's a barrier unheard of prior to World War 2 days.

RECOMPUTING a defense contract has degenerated from the status of a business transaction to that of a game —a game with the stakes running into the millions and, in the absence of clearly stated rules covering all possible contingencies, with the results always in doubt. No one has computed the amount of money which has been immobilized by defense industries by holding it in readiness to pay back to the Government if renegotiation cases go against the company. It must be enormous. To add to the damage done, the final decisions may be delayed three or more years; if taken to Federal Courts, for an even longer period of time.

As We Go To Press

Reversal of the trend that has zoomed the costs of war veteran benefits for the past three decades, is setting in. Congress has taken the first step. It wasn't an easy thing to do; the veterans lobby is powerful and articulate, especially around election times, and it can make out a good case for the former warriors, in some instances. The problems arise from the fact that the lobbies serve national organizations which include in their membership many veterans who suffered little more than inconvenience by being placed in uniform but who demand to be placed on par with the man or woman whose physical or economic welfare has been permanently impaired by reason of service. So the vets lobby goes to bat for pensions, compensation, and whatnot on an across-the-board basis. The costs have mounted to the breaking point but the pressure continues.

A Hard Look has been taken by Congress. Nothing as sweeping as FDR's straight 10 per cent cut in the depression years, but a promising beginning. Still to be achieved is the Administration's goal of putting nonservice-connected benefits on a need basis instead of the current "claim by right." The White House does not favor the draft which is moving through channels to assured enactment. But the President probably will sign the measure: it was passed by so overwhelming a vote that mustering the necessary two-thirds to override a veto seems easy. The congressional action contemplates an eventual test of "need" which gradually reverses the practice of putting a man on the rolls on no further evidence than a record of service. The reform will slow the amount of increased annual costs but won't hold the line.

Pensions and other forms of relief for veterans of military service go back to colonial days. For the first century of the Nation's existence they were tailored to the needs of the aging – need, not reward, was the motivation. Things began to change after World War 1. The largesse has been flowing since that time. But in the last quarter-century the growth of public and private pension plans, including Social Security, has erased much of the need for non-service connected pensions. In spite of this obvious fact the vet lobbies have been pressing for more and more money, creating a permanent health and hospitalization insurance policy based on an honorable discharge as the premium payment. The beneficiaries on today's rolls should be thankful to the Senate Committee and hopeful that its views will prevail. The costs have skyrocketed to the point that drastic, rather than modest curtailments will come eventually, if the leveling off and gradual relief to the taxpayers doesn't come first.

Democrats — not all of them, but a significant number of highly placed party leaders – seem willing to pay a heavy price for a campaign issue, specifically for reversal of the "soft on communism" charge under which they have writhed for the past decade. The fulminations against inviting Khruschev to the United States, following the Nixon visit to Moscow, have been encouraged by the democratic publicists and mouthed by some of their Congressional outlets for the sole purpose of setting up the defense flippantly expressed by "Who's soft on communism now?" If grasping the opportunity to move a mite closer toward relieving the country's heavy economic and emotional load of cold war is diplomatic sin, as the democratic spokesmen would have it, the Administration will have to live with it. But living, with or without the approbation of a rival political party, could very well become a goal in itself!

Nixon's comments on the occasion of his visit to Red Russia were loaded with fact, logic, and meaningful advice that comes home clearer with each re-reading of his formal speeches. For example, the complete clarity of his assurances that the United States does not oppose communism wherever that form is the wish of the people who must live under it; and our dismissal, without rancor, of Khrushy's observation that our grandchildren will live under that system. We don't mind that the No. 1

commie entertains that thought, said Nixon. But, and still smiling, "unless he (Khruschev) tries to bring it about." One could work over language for weeks and fail to come up with a calmer, yet more blunt and final warning to the Reds! Nothing belligerent about it; just fair warning!

Memories of wartime are awakened by action of the Senate Committee on Agriculture which, in one of its final moves of the session, enacted a food stamp plan. Although limited to a "pilot" operation for two years, the bill represented a breakthrough of Administration opposition – if taken at face value. A suggested thought is that nothing more concrete than a gimmick to call attention once more to problems of food surplus disposal might be intended. The bill proposes that $10 million be set aside for the next two years to supplement the food budgets of low-income people by issuance of stamps to be used for foods classed as "surplus." The draft isn't clear on whether commodities are to be purchased for distribution or taken out of government-owned storage. But in any event, when costs of administration and of transportation are paid, there would be precious little left for added calories for the poor in a $5 million-a-year account.

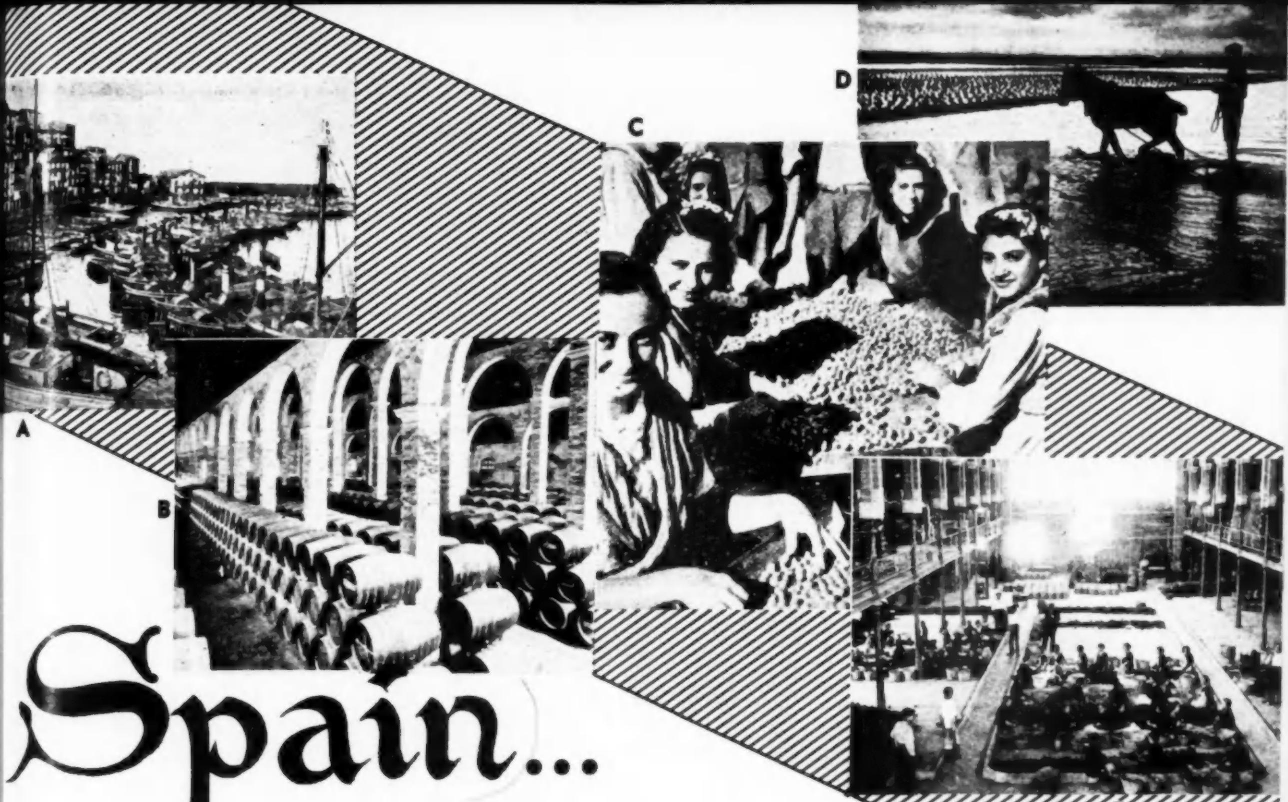
Storm Signals are flying in the farm belt. Behind the announcement by the U. S. Department of Agriculture that the government may try to get lower storage fees for surplus commodities are circumstances which are likely to receive Congressional committee attention. The reduction is hoped for in July. Many farmers have found it is just about as profitable to store crops as to raise them. An overlap has been created; the real business of the operator sometimes isn't quite clear. The present rate of handling of 21½ cents a bushel on grain, including handling costs at the storage site, is about double the rate that prevailed five years ago. Senator Stuart Symington, who isn't passing up any stepping stones to the Presidency, is rumored considering a full-dress inquiry. It's a multi-billion dollar business, subject to no Federal regulatory commission as to rates or practices.

Modification of the Boggs Bill to spur private overseas investment will be worked out in an effort to overcome Administration objections to the original draft. An unusual alignment of democratic Members of Congress and business interest backs the efforts spearheaded by Rep. Hale Boggs of Louisiana. Key feature of the basic measure (HR 5) is expected to be permission for United States firms to defer payment of taxes on money earned and reinvestd abroad until it is returned to this country for distribution. In hearings conducted last month, Administration witnesses indorsed the tax deferral idea in principle but said fiscal consideration now require that it be limited to firms operating in underdeveloped countries and receiving less than one-half their income from exports.

Underdeveloped countries within the Administration definition is not as limited a term as is imposed in more general descriptives. Countries the State Department authorities have in mind include all of Latin America; Africa, except the Union of South Africa; all of free Asia, except Japan, Australia, and New Zealand. To impose the restrictions suggested by the Department would reduce the cut in Treasury revenues from an estimated $300-$500 million annually to a negligible but uncomputed figure. Business interests say that amount may be double the actual loss, in practice.

Better Legislation may result from the hassle than would be achieved if the original bill were adopted. While the House Committee is not inclined to bow to the Administration's geographical limitations, its members are reportedly ready to give in on another point: reduction of the maximum corporate tax on overseas operations from 52 to 38 per cent, as now provided for overseas operations in the Western Hemisphere. Labor organizations oppose the bill and the National Association of Manufacturers supports it. Which seems to be the normal division in this year's session of Congress.

Revision affecting the taxation of farmer cooperative patronage refunds has been carried over to next year. The Treasury has proposed that farmers receiving refunds from their co-ops, be held liable for tax to the extent that the refunds were received in cash. Cooperatives have been sheltered from taxes but their competitors have steadily barraged Congress to remove tax inequities, so far without effect.



Spain...

moves toward FREE ENTERPRISE to revive her dwindling economy

American Money and free Butter

By V. L. HOROTH

- **Franco government acts to convert monopolistic state in line with freer and more flexible systems, as Spain seeks to rejoin Western Europe**
- **Revaluation of peseta . . . economic and fiscal reforms . . . and other liberalizing measures should help to restore nearly exhausted reserves and remove rigidities that have hampered trade these many years**
- **Now incentives offered for foreign capital investment to stimulate and ensure greater industrial dynamism**
- **Will this overhauling of the Spanish economy produce the desired results?**

THE sweeping economic and financial reforms announced by the Spanish Government last month, are likely to make July 1959 a milestone in Spain's post-Civil War history. If the reforms, which call for checking inflation, liberalizing trade, and stabilizing the peseta are carried out, Spain will have taken yet another step — more far-reaching than any it has taken during the last two decades — away from a government-directed corporate state toward a freer economy in which market forces and free enterprise are likely to play an increasing role. Moreover, the reforms should end the economic isolation of Spain and re-establish it as an important partner of Western Europe in developing the resources of Northwest Africa.

Spain emerged from the stormy decade of the Civil War and the Second World War (1936-45) as a corporate state, built in the image of Mussolini's Italy, dedicated to the fetish of self-sufficiency with interference by the central government in Madrid in all areas of economic life. But dire necessity — Spain had to rebuild its wartorn economy largely from its own resources — and the dynamic role played by free enterprise in the economic comeback of Western Europe "beyond the Pyrenees" forced the Franco Government to make many compromises with the fundamentals of the corporate state. Private enterprise was given freer rein, particularly after 1951, and foreign trade was partly decontrolled.

As a result of these liberalizing measures, Spain has become, during the past few years, a jumble of private enterprise in some lines, side-by-side with Government activities in key industries such as steel, mining, electric power, engineering, and petroleum

PRODUCTS OF SOIL AND SEA: Some of the best-known products of Spain are illustrated above. Photo A — A fishing fleet. B — A wine cellar. C — An olive harvest. D — A rice field and E — Orange packing.

SPAIN: Foreign Trade

By Commodity Groups

(In Millions of Dollars)

EXPORTS:	1956	1957	1958
Food and beverages	212	243	297
Mineral products	86	81	38
Chemicals	25	24	25
Metals and mfrs.	24	22	27
Machinery and vehicles	16	16	9
Textiles	10	11	8
All others	69	79	84
Total	442	476	486

IMPORTS:	1956	1957	1958
Foodstuffs	57	75	70
Metals and metal mfrs.	79	89	87
Machinery and vehicles	208	201	165
Petroleum products	101	108	153
Chemicals	137	123	141
Tobacco	22	23	23
All others	163	183	210
Total	767	862	849

By Major Areas

(In Percentages)

EXPORTS:	1956	1957	1958
United Kingdon	15	17	16
West Germany	12	14	10
France	7	7	10
Other Europe	24	23	22
Western Europe	58	61	58
United States	14	10	10
Latin America	13	14	10
All others	15	15	22
Total	100	100	100

IMPORTS:	1956	1957	1958
United Kingdom	9	9	8
West Germany	10	8	9
France	7	5	7
Other Europe	20	18	16
Western Europe	46	40	40
United States	26	26	22
Latin America	9	11	11
All others	19	23	27
Total	100	100	100

U.S. TRADE WITH SPAIN

(In Millions of Dollars)

U. S. EXPORTS TO SPAIN:	1956	1957	1958
Soybeans and veg. oils	78	37	60
All other foodstuffs	19	18	9
Cotton, raw	39	15	53
Fuels	6	16	10
Machinery	45	40	25
Vehicles incl. aircraft	4	11	11
Chemicals and fertilizer	7	6	6
All others	65	57	40
Total	263	200	214

U. S. IMPORTS FROM SPAIN:	1956	1957	1958
Olives and other fruits	17	20	19
Olive oil	9	3	3
Spices	3	3	2
Cork	3	2	2
Wines and liquors	3	3	3
Ferroalloys	1	—	2
Mercury	4	6	2
All others	28	21	23
Total	68	58	55

refining. This curious mixture has fostered rigidities, distortions, and waste, resulting in bottlenecks and an uneven development of the economy. It was, indeed, a wonder that the Spanish economy could function as well as it did. Despite some liberalization, the still-cumbersome controls created to keep out external influences, tended to discourage both domestic and foreign capital from participating in rebuilding the country.

The reforms announced last month have been long overdue. They have been urged on Spain ever since the idea of Spain's closer cooperation with the rest of the Free Europe was broached. Fiscal reform introduced in 1957 and the curbing of private and public investment in 1958 have been helpful, but not broad enough in scope to prevent the threatened insolvency or to deal with Spain's economic problems.

Inflation Threatens Gains Already Made

The main problem has been inflation. It reached a critical phase toward the end of last year when it became clear that the government would have to take some action if the hardwon gains made since the end of the Civil War were not to be lost completely. There was a danger that inflation would further distort the nation's already poorly-distributed purchasing power. Sales of consumer goods were lagging as the rise in the cost of living — some 40 per cent in the last three years — cut into the purchasing power of factory workers and peasants. The increase in living costs would have been even greater had it not been for food subsidies. With discontent reported from many parts of Spain, the political dangers of inflation must have been obvious to the Army and Church leaders, if not to General Franco himself.

The push toward too-rapid industrialization without regard either to the country's available resources or its foreign exchange earning power has been one of the main causes of Spain's inflation. Known industrial resources, such as minerals, are badly distributed and largely marginal; it therefore takes rather heavy capital investments to develop and bring them to industrial centers. Particularly discouraging is the relative shortage of cheap industrial power. Furthermore, despite the industrial buildup, the chief earner of the country's foreign exchange continues to be agriculture which is not only weak and backward, but subject to the vagaries of weather.

The fact that the ambitious industrialization program has been financed through bank borrowing rather than current savings, has contributed materially to the inflationary spiral. There are some 820

specialized autonomous or semi-public agencies, the operation of which extends into all branches of the country's economic life. The largest of them is the Instituto Nacional de Industria (I.N.I.) with large holdings in the steel, petroleum, engineering, and fertilizer industries. Most of these agencies are subsidized in one way or another by the Treasury. It is reported that last year the Treasury, which keeps its regular budget in fair balance, incurred a deficit of over 9 billion pesetas by investing in various and sundry agencies or by bailing them out.

Construction of U.S. naval and air bases is also claimed to have added to the inflationary fires even though U.S. economic aid, by supplying raw materials and foodstuffs, was designed to prevent this result. The employment of more people earning good wages, has been one of several factors that have contributed to the expansion of private investment. Like public investment, private investment has been financed by bank credit without any limitations placed on its use.

Foreign Exchange Reserves Nearly Exhausted

The second major problem which reached a critical stage early this year was the near-exhaustion of Spain's foreign exchange reserves. At the beginning of 1958, Spain's reserves were down to about $100 million. Of this, some $57 million in gold represented the "untouchable minimum" required as cover for currency; the remainder was free foreign exchange. By the end of 1958, practically all the free foreign exchange was exhausted and the untouchable gold minimum was reduced by the amount pledged as an "entrance fee" to the International Monetary Fund and by gold sales to U.S. banks. The Spanish Government was reported to be cutting imports of petroleum and other raw materials and there was danger that Spanish economy might grind to a halt.

SPAIN: Balance of International Payments

(In Millions of Dollars)

TRADE AND SERVICES:	1955	1956	1957	1958-Est.
Imports	—617	—738	—827	—849
Exports	446	441	476	486
Excess of imports	—171	—297	—351	—363
Tourist receipts (net)	135	91	73	
Emigrant remittances	12	39	39	
Other services (net)	—40	—36	—16	
Deficit in current a/c	—56	—203	—255	—240
U.S. economic aid	54	96	144	
Capital movements, outflow (—) inflow (+)	—36	—37	—53	
Decline/increase in gold and foreign exchange	+33	—69	—58	—65
Gold and foreign exchange	221	155	97	32

The loss of foreign exchange has been mainly attributable to the steady rise of imports during the past few years. These imports were needed to provide the rapidly-growing industries with fuel, raw materials, and capital goods. The growing demand for consumer goods was also a factor. During the three-year period, 1955-58, imports rose nearly $240 million to $850 million, the increase in fuel and capital goods imports accounting for nearly one-half of the increment. At the same time exports made only small gains. The trade deficit consequently rose from some $150 million in 1955 to $363 million in 1958. Emigrants' remittances and tourist spending — the growth of which has been encouraging — helped to reduce the gap in the trade and service account by about $100 million. Nevertheless, the international payments situation was deteriorating, largely because of the flight of capital resulting from lack of confidence in the peseta. Under the circumstances, controls over trade and foreign exchange transactions were of little use. Substantial U.S. aid fell far short of the amount needed to plug the gap in Spain's international payments.

Growing Interest in European Neighbours

The dynamic economic comeback of Western Europe, triggered by private enterprise, has raised doubts in the minds of many Spaniards concerning the wisdom of the economic policies they have been pursuing. The establishment of the Common Market, the announcement of the convertibility of most European currencies, and, most recently, the economic regeneration of France have all had an impact upon Spanish economic and political thinking.

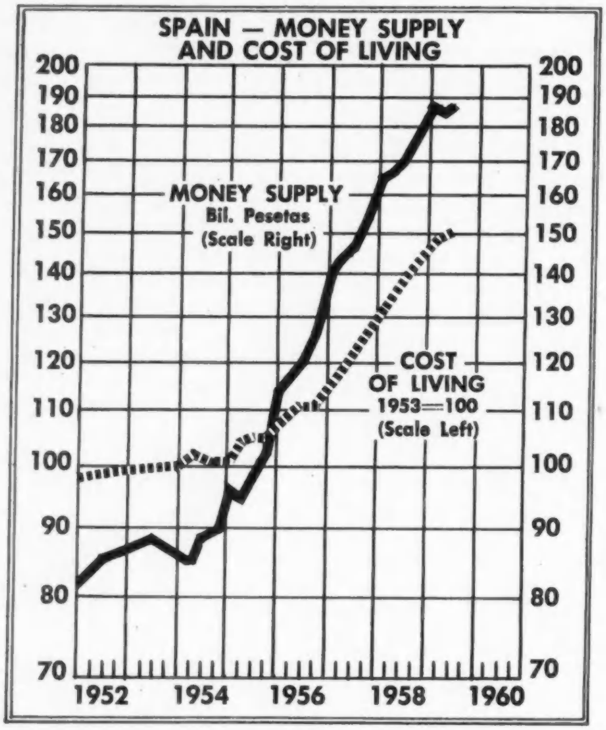
A prosperous Europe, beyond the Pyrenees, has also begun to loom as a great potential market for Spanish products. These include such minerals as iron and copper ore, and pyrites, and, even more, specialized, semi-luxury agricultural produce such as wines, citrus fruits, bananas, tomatoes, and early vegetables which Western Europe with its rising purchasing power is now better able to afford than ever before. As the table on page 650 shows, some 60 per cent of Spanish exports are absorbed by Western Europe. Exports to the United States and Latin America are relatively few in number since the products traded with these two areas are competitive rather than complementary.

The New Stabilization Program

With its foreign exchange reserves practically exhausted and with inflation feeding the smoldering fires of discontent and threatening its hard-won gains, Spain had little choice but to accept outside assistance even if this meant a tacit break with past economic policies. Following an investigation earlier this year by a Study Commission of the International Monetary Fund, Spain agreed to far-reaching reforms in its economy as a condition of being reintegrated into both the European and the International economies. The comprehensive economic stabilization program includes:

(1) *Revaluing the Peseta*
Abandonment of the multiple exchange rates, which ranged from 42 to 62 pesetas per dollar, the frequent changes in which made trading with Spain a nightmare. A uniform rate was established at 60 pesetas per dollar. At that level the peseta appears to be somewhat undervalued. This should help Spanish exports.

(2) *Liberalizing Import Quotas*
The present system of import quotas is to be replaced by more liberal regulations. Spain agreed to free at least 50 per cent of private imports from quota restrictions. The liberalization applies to all countries which have no bi-



SPAIN: Economic Growth Indicators

		1950	1956	1957	1958-Est.
Population	(millions)	27.9	29.2	29.4	29.7
National income	(bil. ptas)	138	311	382	439
Per Capita National Income	(dollars)	250	307	322	333
Public and private investment	(bil. ptas)	18	55	76	
Agricultural production	(1931-35=100)	84	109	113	113
Wheat output	(mil. bu.)	124	154	180	161
Olive oil	(mil. hectol.)	1.72	3.98	3.11	3.00
Oranges	(mil. quint.)	8.75	4.62	11.83	12.47
Cotton	(000 bales)	16	215	167	190
Industrial production	(1953=100)	74	129	135	149
Chemical industry	(1953-54=100)		145	167	191
Steel output	(mil. tons)	.8	1.24	1.34	1.57
Coal output	(mil. tons)		14.8	16.4	17.1
Cement output	(mil. tons)	2.10	4.00	4.48	4.82
Electricity productions	(bil. KWH)	6.92	13.7	14.9	16.4
Electricity: installed capacity	(000 mega-watts)	2.35	3.90	5.53	
Budget revenues	(bil. ptas)	17.8	33.8	33.8	48.5
Budget expenditures	(bil. ptas)	18.1	35.8	43.1	50.5

lateral trade and payments agreements with Spain; this includes Western Europe, the United States, and Canada. For an important part of the remainder of Spain's private imports, global quotas are to replace bilateral quotas.

(3) *Higher Tariffs on Semi-Luxury Imports*
To limit speculative imports, buyers will be required to make advance deposits, equal to 25 per cent of the value of incoming shipments, in a special account with the Bank of Spain. Imports, such as foodstuffs, which affect the cost of living will continue to be subsidized, but a long list of semi-luxury imports, including motor vehicles have been made subject to stiff tariff increases.

(4) *Inviting Foreign Capital Participation*
The participation of foreign capital in Spain's industries has been limited. U.S. investments, at the end of 1957 were only $65 million — less than 2 per cent of total American capital invested in Western Europe. Steps are now being taken to make foreign capital participation more attractive. In the past, foreign participation was limited to a maximum of 25 per cent. This maximum is now being raised to 50 per cent, and, in the case of the petroleum industry, to 100 per cent. Restrictions on transfers of dividends and capital repatriation are also being eased.

Some 20 European and U.S. oil companies are already reported to have submitted bids for concessions in Spain proper as well as in the Spanish Sahara (Rio de Oro) and Spanish Guinea. Traces of both oil and gas have been encountered south of the Pyrenees. Oil imports, which have been rising rapidly in recent years, now account for about 20 per cent of Spain's import spending. Hence, the discovery of oil in sufficient quantities would go a long way toward easing Spain's foreign exchange problem, in addition to providing much-needed fuel for the country's industries.

(5) *Applying Financial Brakes to Inflation*
To check inflation, the Spanish authorities imposed a ceiling on public spending (81 billion pesetas) and limited the expansion of private credit to about 11 billion pesetas. Agriculture, which hitherto has been neglected, is finally to get a larger slice of the national investment "pie." To control bank credit, a new type of government bond is being issued that cannot be used as collateral for borrowing from the Bank of Spain. Special reserve requirements have also been imposed on commercial banks.

(6) *Freeing Trade from Price Controls*
Price controls are to be abolished — immediately for imported goods, and gradually for domestic products — in an effort to encourage both productivity and greater freedom in trade and payments.

To facilitate the changeover and to replenish Spain's reserves, the Organization for European Economic Cooperation — of which Spain is now a full-fledged member — the U. S. Government (Export-Import Bank), the International Monetary Fund, and a group of N. Y. banks granted Spain credits totaling $375 million, with a promise of more assistance from the Development Loan Fund. In addition, Spain will continue to receive counterpart peseta funds accumulated through previous foreign aid programs.

Will the Overhauling of the Spanish Economy Bring the Desired Results?

Basically, this depends on the ability of the Franco Government to *(Please turn to page 679)*

More JET-UP-AND-GO for the AIRLINES

► **Companies in the best earnings-dividend position . . . those moving ahead . . . where problems exist**

By WARREN T. WILSON

AT this time, there is evidence that 1959 may turn out to be a profitable and significant year for the nation's airline industry. Records are being established in passenger revenues, in miles flown and in the number of "first time" travelers,—i.e., in popularity of the airplane as a means of transportation. The reasons for this forward surge are readily apparent. Most important has been the success of commercial jet liners. Growth potentials in this development appear to be impressive.

In addition to the widespread acceptance of modern jet and turbine transports, accompanied by profitable load factors, the industry has had the benefit of new routes as well as an approach toward establishing a rate structure that promises to encourage expansion in air travel. Also, there have been wage-rate patterns that will tend to hold operating costs within reasonable limits for another year or two, at least. Meantime, higher depreciation charges, contributing to more satisfactory "cash" earnings, should be of aid in financing heavy deliveries of modern equipment. However, orders for additional jets and turbine planes will probably necessitate cautious dividend policies for some time. Hence, for investors dependent on income, this must be taken into consideration in appraising the stocks in this group.

Two Fundamental Problems

In any current discussion of prospects for the airline industry, two primary subjects deserve greatest consideration. These are the problems and potentials involved in the transition from piston-engine power plants to jets, and determination of a fair rate structure by the Civil Aeronautics Board that will af-

ford a reasonable return and at the same time encourage full utilization of transport facilities. Government agencies, as well as airline managements, agree that these factors are paramount in formulating policies designed to encourage growth, with emphasis on safety and convenience of the service, and the maintenance of reasonable rates that encourage travel by air.

Air Travel By Jet

Success of jet transportation, notably on transcontinental and overseas flights, was demonstrated within a few months after the modern Boeing 707's and the Lockheed Electras were put into service last winter. The Boeing pure jet planes, accomodating around 100 passagers, have attained an average load factor well above 90 per cent, while the turboprop Electras have been averaging considerably more than 80 per cent of capacity. Importance of this exceptionally favorable showing is illustrated by the fact that the industry's load factor has averaged slightly less than 60 per cent. When planes can maintain load factors of more than 80 per cent, it is apparent that revenue passenger miles and gross income mount up rapidly.

Break-in costs of the new planes exceeded earlier projections, while economies anticipated in jet service fell short of preliminary calculations. Nevertheless, popularity of the fast service was greater than expected—at least, through the spring and early Summer months, with the result that financial operations have just about met forecasts. Results promise to prove highly satisfactory for the lines that have placed jets in operation, namely American Airlines, Pan American World Airways and Trans World Airlines, as well as National Airlines on some flights. United Air Lines is testing Douglas DC-8's preparatory to inauguration of transcontinental flights by mid-September. Eastern Air Lines expects to have DC-8's in service on the New York-Florida route next winter.

Based on experience gained with jets and turboprops in the first six or eight months of service, it appears well within the realm of possibility that the airline industry may enjoy a vigorous expansion in passenger service in the next few years. It would be unreasonable to hope that load factors could be maintained at 80 or 90 per cent for any appreciable length of time, but the insistence of the traveling public on jet service, where available, suggests that piston-powered craft will be outmoded more rapidly than had been anticipated. Hence, the aircraft industry must soon make available jet planes for intermediate routes. Turboprop Electras already have demonstrated their adaptability to short haul service.

The Rate Structure

Final determination of a modern fare policy is expected by the year-end. The C.A.B has extended until December 31 two temporary increases granted last year, and Washington observers have intimated that this action was taken in the belief that a ruling would be handed down before that date, establishing a permanent fare schedule, based on results of an investigation that has been in progress for more than a year. The initial temporary rate increase, the first upward adjustment in a dozen years, was granted in February of last year. The change authorized increases averaging about 6.6 per cent. Later in 1958, another temporary adjustment involving elimination of return trip discounts, etc., was put into effect. The combined net result was increased fares averaging betwen 10 and 11 per cent.

The report of a C.A.B. examiner proposing another small rise has been submitted to the commission for final decision. The report was regarded as constructive in that it favored continuation on a permanent basis of the changes already adopted, including a fare increase of approximately 12 per cent. Thus, this proposal confirmed the industry's contention that rates in effect prior to 1959, especially after the rise in costs in 1956 and 1957, had proven inadequate for the air transport industry. In the light of experience disclosed in the C.A.B. inquiry, it was indicated that higher fares recommended by the examiner would have no adverse effect on travel patterns.

The report submitted to the commission recommended standardization on a fairly long-term basis, thus avoiding adjustments in both directions with each temporary change in costs or revenues. The examiner also proposed that the four major carriers be permitted to earn 10¼ per cent on their investment, while another eight companies would be allowed to earn 11¼ per cent, with consequent incentive to encourage traffic growth. With such goals, the commission could expedite actions aimed at increasing or lowering fares to keep earnings at or near the proposed standards.

Recent Traffic Gains

Official data disclose an increase of 14 per cent in total revenues for the March quarter over a year ago, while unofficial estimates place the gain for the second quarter well above the preceding three months. Revenue passenger miles are currently being projected for this year at a new high, some 15 to 20 per cent above the 1958 total of 25 billion. Indications point to continuation of the uptrend well into 1960. Domestic trunklines had a combined profit of slightly less than $5 million in the March quarter, compared with a loss of just under $9 million in the 1958 period. Results for the June quarter are believed to have provided an even more satisfactory comparison. Optimists are hopeful that 1959 may be one of the best years on record for the industry. It is too early to offer worthwhile projections for 1960, but obviously continuation of the current trend would satisfy airline managements.

Factors In Appraising Profits

Now, what about financial results? How should airline equities be appraised under current conditions? In the first place, the investor should realize, if he already has not done so, that earnings of representative air transport companies are stated on a different basis from those of manufacturing concerns. In fact, operating procedures differ from almost every other kind of business. Hence, factors other than reported earnings are usually important in appraising prospects for air carriers. Moreover, generalizations are difficult, because conditions applicable to some airlines would not be pertinent in other cases.

First, we should call attention to regulations hav-

Statistical Data on Leading Airlines

	1st 6 Months: Net Sales 1958 (Millions)	Net Sales 1959 (Millions)	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Per Share 1958	Net Per Share 1959	Full Year: Earned Per Share 1957	Earned Per Share 1958	Dividend Per Share 1958	Dividend Indic. 1959*	Price Range 1958-59	Recent Price	Div. Yield %
AMERICAN AIRLINES W.C. (mil.) '57–$35.2; '58–$35.0	$ 82.7	$ 97.4	5.4	5.4	$ .55	$ .64	$1.31	$1.94	$1.00	$1.00	33⅜- 14⅜	27	3.7%
BRANIFF AIRWAYS W.C. (mil.) '57–$6.2; '58–$9.5	33.2	36.7	2.6	4.9	.30	.61	.59	1.01	.60	.60	17⅝- 6⅞	14	4.2
CAPITAL AIRLINES W.C. (mil.) '57–(d)$4.3; '58–$2.8	23.4[6]	26.6[6]	d6.2[6]	d3.5[6]	d1.61[6]	d1.03[6]	d3.53	.23	—	—	23⅞- 10⅜	16	—
DELTA AIR LINES W.C. (mil.) '57–$5.6; '58–$5.7	88.1[1]	103.8[1]	1.2[1]	4.3[1]	.95[1]	3.62[1]	.95[1]	3.62[1]	.30	1.20	36⅜- 16¼	30	4.0
EASTERN AIR LINES W.C. (mil.) '57–$35.0; '58–$38.5	139.9	147.7	3.5	2.4	1.60	1.17	3.21	2.34	1.00[3]	1.00	46¼- 29⅛	38	2.6
KLM ROYAL DUTCH AIRLINES W.C. (mil.) '57–$23.4; '58–$23.2	129.6[1]	132.1[1]	2.3[1]	2.6[1]	2.13[1]	2.40[1]	2.13[1]	2.40[1]	1.85	1.85	39⅝- 25¼	32	5.7
NATIONAL AIRLINES W.C. (mil.) '57–$1.2; '58–$1.6	39.4[2]	54.1[2]	d1.5[2]	4.2[2]	d .54[2]	1.42[2]	2.73	d .54	[4]	[3] .12[5]	29⅝- 12⅞	21	.5
NORTHWEST AIRLINES W.C. (mil.) '57–$4.4; '58–$10.3	44.2	59.7	1.1	2.1	.38	1.14	3.56	4.06	.80	.80	46⅛- 10⅛	36	2.2
PAN AMER. W. AIRWAYS W.C. (mil.) '57–$7.5; '58–$41.9	144.2	162.2	d1.1	.4	d.27	.10	1.35	.78	.80	.80	35¼- 12¾	25	3.2
TRANS WORLD AIRLINES W.C. (mil.) '57–$15.4; '58–$11.9	136.5	159.3	d7.7	.9	d1.59	.23	d .23	.26	—	—	24⅝- 10½	19	—
UNITED AIRLINES W.C. (mil.) '57–$28.0; '58–$58.8	148.0	166.4	2.7	4.2	1.19	1.90	2.28	3.88	.50[3]	.50[3]	45 - 21¼	39	1.2
WESTERN AIR LINES W.C. (mil.) '57–$4.6; '58–$5.3	N.A.	N.A.	N.A.	N.A.	d .48	1.87	2.83	1.51	.80[3]	.80[3]	38 - 19¼	31	2.5

W.C.—Working capital.
d—Defiit.
1—Year ended June 30, 1958 and 1959.
2—9 months ended March 31.
3—Plus stock.
4—Paid 12½% stock.
5—Paid thus far in 1959.
6—First quarter.

American Airlines: Increased passenger traffic attracted by jet service contributing to better earnings, suggesting that earnings supplemented by capital gains may reach an all-time peak. Dividends seem pegged at $1 annual rate. B1

Braniff Airways: Benefits of additional long-haul traffic, stimulated by favorable economic conditions, showing up in earnings gains. Costs increased by break-in of new equipment. Modest rise in net profit indicated. C1

Capital Airlines: Prospect of increased costs incident to service improvements offers little hope of significant earnings this year, especially as competition from rivals has stiffened. Initiation of dividends seem remote. C2

Delta Airlines: Rising traffic volume on new southern routes, likely to be bolstered by use of jet equipment, points to continuation of favorable earnings. Results for June 30 year give wide coverage for $.120 dividend. B1

Eastern Air Lines: Keen competition on N.Y.-Florida route tending to depress margins, but introduction of jet planes may help recoup traffic next winter. Modest earnings improvement anticipated. Dividend set at $1 cash rate. Has also paid small stock dividends in recent years. B1

KLM Royal Dutch: Despite substantial capital gains from sale of obsolete equipment, operations in first half of year proved unprofitable. Keen competition for overseas business tends to restrict earnings. B3

Natonal Airlines: Reflecting in part benefit of introduction of jet services last winter, traffic and earnings registered distinct improvement and net profit is officially estimated at about $1.60 per share for June fiscal year. B2

Northwest Airlines: Substantial gains anticipated from new roate between Florida and Chicago. International traffic continues to improve. Prospects point to 1959 results comparing favorably with $4.06 a share for 1958. C1

Pan American World Air: Impressive traffic gains and high load factors contributing to higher earnings as result of favorable jet experience. Promising outlook for 1960 hold out hope of modest dividend rise. B1

Trans World Airlines: Another beneficiary of operating economies gained through introduction of jet service on domestic and international routes. Recovery in earnings to more than $1 a share considered possible. C1

United Air Lines: Despite keen competition offered by major rivals through new jet transports, United has fared better than had been feared, and impending introduction of Douglas jets should spark recovery. B1

Western Air Lines: With benefits of additional routes and absence of labor dispute, results this year are expected to register distinct gains. Net profit tentatively estimated above $4 a share vs. $1.51 in 1958. C1

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

ing a direct bearing on earnings. The most important are depreciation charges prescribed by the C.A.B. Uncertainty over the extent of the commission's authority to enforce its regulations in this matter, tends to obscure normal earning power, as well as comparisons among major carriers.

Uncertainty as to depreciation developed about a year ago, after courts had held that the C.A.B. lacked jurisdiction in prescribing schedules for charging off costs of piston-engine equipment. In some quarters it was assumed that Congress would enact legislation conferring powers the court had found lacking. Accordingly, some lines followed the C.A.B regulations that ordered piston equipment to be charged off in seven years to a residual 15 per cent base, in addition to half of the estimated cost of a periodic overhaul. Doubts over Congressional action since have increased, thereby enabling those carriers that pursued a more rapid depreciation rate to retain the benefits.

Also, earnings results are being adversely affected by pressure on prices of outmoded equipment. Larger numbers of piston-engine planes are being offered by air lines than the market is able to absorb without price concessions. As a result, capital gains from equipment disposed of (Please turn to page 678)

MID-YEAR REAPPRAISAL OF

INSURANCE STOCKS

-FIRE, CASUALTY AND LIFE

By WILLIAM AMOS

- **The basic earnings factors underlying investment in fire and casualty company stocks**
- **The investor in life insurance stocks must consider an entirely different set of conditions**

WHILE complete first half earnings returns for the bulk of the fire and casualty insurance companies are not yet available, sufficient information is in hand to show clearly that a dramatic improvement in underwriting results was recorded by most stock fire and casualty insurance companies in the second quarter of 1959. Coming on the heels of an unprofitable first quarter, the sharp turn-around in the April-June period is encouraging. Rough estimates indicate that the average combined loss and expense ratio for a representative group of fire and casualty insurance companies will approximate about 99% for the second quarter of 1959 versus about 105% in the first quarter. Thus, it now appears that the average combined loss and expense ratio for these companies for the first half of 1959 will be under the ratio of 102.5% in the first six months of 1958. Prices of fire and casualty stocks have risen from their lows of this year but generally are well below the highs recorded at the beginning of 1959. In comparison with other stock groups, these insurance stocks appear to provide relatively good values, particularly if their underwriting results are on the mend.

Position of Fire and Casualty Companies and Fundamental Profit Factors

Historically the underwriting cycle for fire and casualty insurance companies has continued for at least two or three years in one phase before it has changed. In the depressed phase, where underwriting losses outnumber underwriting gains, it takes a few years to obtain the necessary rate increases, to have them fully reflected in earnings and to show results from expense-trimming measures. Once some headway has been made along these lines, however, fire and casualty insurance companies have generally enjoyed a number of improving and good underwriting years before rate reductions have set the stage for a reduction in underwriting profits.

In the last half of 1958, after 2½ to 3 years of dragging along the bottom of the underwriting cycle, it began to appear that the fire and casualty insurance company industry had started to emerge into the recovery stage of the cycle. This conclusion was based on the fact that, after a poor first half, the last six months of 1958 showed a marked improvement in industry-wide underwriting results. In fact, for a representative group of fire and casualty insurance companies, underwriting operations showed an aggregate profit in the last six months of the year. This improvement was quickly reflected in rising prices for fire and casualty insurance company stocks. In January 1959, however, fire losses rose 13%, largely as a result of unusually cold weather throughout most of the United States. This was a major contributing factor to the relatively disappointing first quarter underwriting results for many fire and casualty insurance companies. To be sure, the underwriting losses were not as large as they had been in the first quarter of 1958, and it is axiomatic that the first quarter is usually the period when underwriting losses reach their seasonal peak. However, the disappointing underwriting results of the first quarter of 1959 appear to have been the principal factor in the sharp decline in fire and casualty stocks in the second quarter of 1959. Many investors in insurance company stocks jumped to the conclusion that the improvement in underwriting earnings in the last half of 1958 was a false start and did not represent a real turn in the underwriting cycle.

While it is always dangerous to make flat predictions in an industry subject to as many variables as the fire and casualty business, it does seem likely that the less satisfactory 1959 first quarter underwriting performance represented a random factor, and that the basic factors for improvement are still at work. In other words, the mid-1958 turn may well have been the starting point for better underwriting results which will continue—with minor interruptions for several years.

Improvement Ahead?

Following are four reasons for concluding that the improvement is continuing and that the first quarter results are not to be relied upon as an indication of any basic change in the cycle:

1. The duration of the unfavorable phase of the cycle had been as long or longer than average and a move to the recovery stage has been overdue. Good second quarter results tend to verify the fact that a recovery move has been under way.

2. A large number of substantial rate readjustments have been made in recent years, especially in the automobile liability lines. Since it takes at least two years for an automobile rate increase to be fully reflected in earned premiums, it is apparent that the many automobile rate rises granted by the various state insurance departments in 1958 and to date in 1959 will be only partially reflected in 1959 earnings. A much larger portion of such rate relief will be reflected in earned premiums in 1960 and 1961. *First quarter underwriting performance in automobile lines this year has shown substantial improvement over a year ago,* supporting the belief that despite the unsatisfactory performance in fire lines in the first quarter of 1959, rate increases in automobile liability lines are now benefitting earnings.

3. Many fire and casualty insurance companies have begun to show *results in the past year or two in the direction of reducing expenses.* This has come about both by means of economies in operational costs through increased efficiency, and by reductions in commission rates—especially in the automobile liability lines.

4. With respect to liability for Federal income taxes, most fire and casualty insurance companies are strongly situated at present. *By reason of the substantial underwriting losses experienced during the past few years, sizable tax credits have been developed which may be carried forward and applied against tax liabilities over the next two or three years.* Furthermore, the investment departments of a growing number of fire and casualty insurance companies have tended to *emphasize tax-exempt bond investments,* thus bringing down the effective over-all tax rate on their investment income.

What Dividends Likely

If underwriting experience does show substantial improvement through the balance of 1959, it is reasonable to believe that a number of long-delayed dividend increases will be forthcoming. Because insurance company managements are reluctant to increase dividends while underwriting results are unsatisfactory, many dividend increases which might well have been justified by steadily rising investment income, have been postponed. Thus the industry's percentage of dividends to net investment income has declined to considerably lower than usual levels.

Data on Leading Fire and Casualty

	Net Investment Income Per Share 1958	Net Investment Income Per Share 1957	Net Premiums Written(+) 1958	Net Premiums Written(+) 1957	Recent Market Price	Present Dividend Rate	Yield	Price Times Net Inv. Income
Aetna Insurance	$6.16	$6.23	$145.4	$150.2	71	$2.60	3.66%	11.5
American Insurance	1.99	2.00	166.6	174.2	27¼	1.30	4.77	13.7
American Re-Insurance	2.51	2.37	40.5	36.2	44	1.20	2.73	17.5
Boston Insurance	2.62	2.63	57.4	53.0	34	1.80	5.29	13.0
Continental Casualty	4.29	3.86	299.4	298.4	128	1.40	1.09	30.4
Continental Insurance **	3.28	3.17	517.5	465.0	56	2.00	3.57	17.1
Federal Insurance	1.70	1.58	67.4	63.5	65½	1.00	1.53	38.5
Fireman's Fund	414	3.83	230.5	215.7	60¾	1.80	2.96	14.7
General Reinsurance	5.13	4.85	49.2	45.8	88¼	2.00	2.27	17.2
Glens Falls Insurance	2.68	1.92	81.9	80.7	35	1.00	2.86	13.1
Great American Insurance	3.74	3.51	144.9	146.5	41⅜	1.50	3.62	11.1
Hanover Insurance	3.99	3.76	38.0	35.4	39	2.00	5.13	9.8
Hartford Fire Insurance	8.90	8.34	426.2	388.4	187	3.00	1.60	21.0
Home Insurance	3.69	3.68	230.6	231.3	51	2.00	3.92	13.8
Insurance Co. of Nor. Amer.	5.13	4.95	340.5	322.7	133½	3.00	2.25	26.0
Maryland Casualty	2.72	2.57	125.2	119.0	37½	1.50	4.00	13.8
Mass. Bonding & Insurance	3.95	3.87	40.1	39.6	36	1.60	4.44	9.1
National Union Fire Ins.	4.05	3.95	45.9	44.6	39¾	2.00	5.03	9.8
New Amsterdam Casualty	7.90	7.18	87.6	92.1	47¾	1.90	3.98	6.0
New Hampshire Fire Ins.	4.23	4.11	41.8	36.8	48½	2.00	4.12	11.5
Northern Insurance	2.45(a)	2.85	39.5	41.1	46	1.50	3.26	18.8
Phoenix Insurance	6.30	6.01	99.7	95.3	78½	3.00	3.82	12.5
Providence Washington ns.	2.28	2.49	23.6	23.7	21¾	.30(A)	1.38	9.5
Reliance Insurance	4.54	4.37	67.5	56.4	48½	2.20	4.54	10.7
St. Paul Fire & Marine Ins.	2.10	2.02	149.1	138.6	67¾	1.30	2.25	26.5
Springfield Fire & Marine Ins.	1.48	*	59.0	58.5	32	1.00	3.13	21.6
Standard Accident Insurance	5.52	5.26	74.8	74.2	59½	2.00	3.36	10.8
U.S. Fidelity & Guaranty	5.47	5.15	250.3	250.1	89	2.00	2.25	16.3
Westchester Fire Insurance	2.27	2.22	28.5	27.6	31	1.20	3.87	13.7
Average of 29 Companies							3.33%	15.8

(+)—In Millions.
*—Not comparable because of recapitalization in connection with acquisition of Monarch Life Insurance Co.
**—Adjusted to reflect consolidation with Fidelity-Phoenix Insurance C.
(A)—Paid to date in 1959.
(B)—Reflects additional shares sold in 1959.
(C)—Excludes loyalty group.

What to Consider when Investing in Fire and Casualty Insurance

The investment side of the fire and casualty insurance business is important since net investment income provides the source of dividend payments on insurance company stocks. Furthermore, the gains in surplus which most fire and casualty companies have experienced in the last two or three years have arisen chiefly from undistributed net investment income and from appreciation in market quotations of equities owned by these companies. The steady build-up of investment values and net investment income of most fire and casualty insurance companies over the years has been a factor for strength.

It is essential to keep in mind, however, that the underwriting side of the fire and casualty insurance industry is the principal part of the business. In the final analysis, it is the steady plow-back of a good margin of profit (the difference between 100% and the combined loss and expense ratio) which makes for growth in value and long-term market appreciation of fire and casualty insurance company stocks. The companies with superior underwriting profit margins will generally be the ones with the best appreciation records for their stocks.

Not only is the fire and casualty industry an essential and a large business, but it is also a dynamic one in the sense that many changes are constantly taking place in the industry. Among the principal changes of recent years have been:

1. *Development of new types of policies* including the incorporation of several types of protection in one "package' 'or "multiple peril" policy. This has tended to bring about greater diversification of the business of individual companies by means of the combining or merger of fire companies and casualty companies and the acquisition of life insurance affiliates by several fire and casualty companies.

2. *Changes in marketing methods.* Competition from the so-called "direct-writers" such as Allstate, who can operate with reduced commission or acquisition costs, has made it necessary for the agency companies to change their policies, especially in the automobile lines, in order to meet these lower costs. To an increasing degree the agency companies have been adopting the so-called "economy" automobile policy as a method of meeting price competition. This policy provides for reduced agents' commissions but compensates for this in some measure by having the Company assume a larger proportion of the clerical and servicing expenses, by providing for automatic renewals by simple endorsements and by providing for cash terms of payment.

Problems to be Faced

The fire and casualty insurance industry continues to be faced with a number of problems arising out of changes in coverages, effects of inflation, and increased competition which has necessitated changes in marketing methods. It would appear, however, that progress is being made in meeting these problems. Rate increases constitute a partial solution, but more fundamental are the changes in marketing methods and in the combination of companies to gain greater strength and diversification.

Life Insurance Today

Life insurance companies ordinarily do not gen-

surance Company Stocks

Est. Liq. Value 12/31/58	Combined & Expense Ratio: Year 1958	3 Mos. to 3/13/59	3 mon. to 6/30/59	6 mos. to 6/30/59
$118.60	102.8%	112.7%	98.1%	105.4%
33.02	103.0	109.1	93.9	105.5
41.85	94.8	N. A.	N. A.	N. A.
55.62	105.6	113.0	101.0	107.0
79.61	97.4	103.0	N.A.	97.3
79.13	108.1	109.4(c)	N. A.	N. A.
40.76	92.7	96.7	N. A.	N. A.
76.95	101.1	103.6	97.6	100.6
84.80	94.4	92.4	96.2	94.4
57.50	101.1	109.5	100.0	104.6
76.94	106.1	109.0	97.4	103.2
73.95	106.5	105.3	110.1	107.7
177.33	98.6	102.1	N. A.	N. A.
88.16	102.0	107.7	96.5	102.1
116.67	97.8	105.6	98.6	102.1
45.49	100.9	101.0	102.0	101.5
47.52	111.9	N.A.	N. A.	95.0
66.85	105.8	105.3	104.7	105.1
86.38	106.4	110.3	N. A.	N. A.
94.61	103.6	95.5	102.3	98.9
41.58	99.9	103.2	97.4	100.8
151.34	108.4	111.9	99.5	105.7
36.97	102.6	104.3	98.5	100.8
83.34	102.1	110.3	96.3	103.3
44.71	97.2	99.1	94.7	96.9
45.04	103.1	107.0	103.8	105.2
87.52	105.6	101.4	99.2	100.3
91.76	99.6	101.9	98.5	100.0
54.84	100.0	104.0	97.4	100.7
	102.0%	105.0%	99.2	101.7

(D)—Adjusted for 1.1 exchange of shares in merger of Fidelity-Phoenix Insurance Co.
(E)—Adjusted for 25% stock dividend paid in 1959.

erally experience as wide cyclical variations as do the fire and casualty companies. Steady growth and reinvestment of a major portion of earnings over many years has been characteristic of the life insurance industry. The factors which most importantly affect earnings and growth in value of life insurance equities may be summarized as follows:

1. *Steady gains in sales* as population and national income have risen. Even through the depression years, sales of new life insurance continued to grow, but in the past decades the gains in sales of new life insurance have increased at an accelerated pace, reflecting the sharp gains in personal income, especially of the lower income groups. Today there is over $500 billion of life insurance in force compared with just over $200 billion ten years ago. Further growth seems to be assured in the future as the war baby population moves into the family formation stage. Based on published figures for the first five months of 1959 life sales were up about 7% over the comparable 1958 period. However, several of the major stock life insurance companies reported substantially larger percentage gains in sales of life insurance than the 7% average gain.

2. *Higher rates of interest* earned on investments have contributed materially to the improvement in life insurance company gains during recent years and may be expected to continue to constitute a favorable factor in the future. The rate earned on life insurance company investments has increased from about 2.88% to 3.85% from 1948 to 1958, and may well rise to approximately 5% over the next five or six years, assuming that interest rates hold firm around current levels. This is a tremendous factor when it is realized that an additional 1% on $100 billion of life insurance company assets means $1 billion more in gross returns.

3. Improvement in mortality experience or *longer life expectancy* for policyholders also has contributed much to the earnings gains of life insurance companies over the past several years. While the rate of betterment in mortality gains has tended to be somewhat slower during the late 1950's, there is still considerable room for further improvement as new medicines and advanced surgical techniques are developed. A break-through in the battle against cancer would represent an important potential gain along this line. In any event, it is reasonable to believe that medicine and science will continue to prolong man's life expectancy in the future as they have in the past. This is a major plus factor for the life insurance companies since longer life for policyholders means more premiums on longer use of money that would otherwise be pay- *(Please turn to page 677)*

Data on Leading Life Insurance Company Stocks

	Market Price: 1955 High*	At 12/31/58*	7/31/59	1958 Adjusted Earnings(A)	Present Dividend Rate	Yield	Price Times Adj. Earn.	Est. Tot. Equity Value at 12/31/58(B)	Price As % Of Equity Value	Incr. In Life Ins. In Force 1948-58
Aetna Life	292	244	253	$12.99	$3.40	1.34%	19.5	$212.90	119%	180%
Commonwealth Life	19⅜	28⅞	27⅜	1.40	.20	.73	19.6	16.82	163	197
Connecticut General Life	310	362	391	17.47	2.20	.56	22.4	227.06	172	241
Continental Assurance	150¾	140¾	160	6.31	1.20	.75	25.4	61.39	261	416
Franklin Life	61⅛	76⅛	83¾	3.50	.45	.54	23.9	23.04	363	383
Gulf Life	36¾	25⅝	24¼	1.47	.50	2.06	16.5	20.60	118	163
Jefferson Standard Life	108	90	92¼	7.11	1.25	1.25	13.0	74.37	124	159
Kansas City Life	2000	1590	1500	118.37	10.00	.67	12.7	1,451.76	103	71
Liberty National Life	20¼	41⅛	55¼	2.40	.34	.62	23.0	18.27	302	195
Life Insurance Co. of Va.	77⅜	54¾	54	4.52	1.20	2.22	11.9	64.88	83	104
Lincoln National efiL	272½	255	247	16.85	2.00	.81	14.7	175.61	141	187
Monumental Life	75	67½	70	5.54	1.20	1.71	12.6	58.40	120	74
National Life & Accident	89½	125½	111¼	7.74	.60	.54	14.4	63.23	176	158
Travelers Insurance	123	95¾	97½	6.06	1.20	1.23	16.1	78.03	125	158
United State Life	36¼	46⅝	49	2.12	.15	.31	23.1	18.75	261	418
Average of 15 Companies						1.02%	17.9		175%	207%

*—Adjusted for any subsequent stock dividends and/or splits.
(A)—Includes equity in increase in life insurance in force valued at $15 per thousand for ordinary, $5 per thousand for group, and 50% of annual premiums for industrial.
(B)—Includes equity in life insurance in force at same valuations as in..(A).

A realistic appraisal of
THE AIRCRAFT INDUSTRY

By ARTHUR KRANISH

- **The position of the industry under defense and space appropriations.**
- **The speculative character in earnings—dividend outlook for the individual companies under changing emphasis on planes—missiles— space vehicles**
- **The aircraft investor under stop-and-start programming.**

WASHINGTON—The future of much of the nation's aero-space industry lies largely with funding provided by the Pentagon for defense purposes, and by the National Aeronautics and Space Administration for peaceful, scientific exploration of outer space. Despite the changing tides of the Cold War and successes or failures at the testing ranges, outlays for aircraft and spacecraft *on an industry-wide basis* are essentially stable and are likely to remain so for some years to come.

For the Congress has underscored this principle by accepting, with relatively minor changes, the defense and space appropriation programs put forth by President Eisenhower last January. This action will be reflected in months and years to come on the order books of the large companies which dominate the industry, and in the many thousands of subcontractors whose economic welfare is sensitive to happenings in Washington, D. C. procurement offices. But the fortunes of the individual companies over the near term will continue to be subject to the shift and change in procurement.

Stop-and-start programming has in the past materially affected the fiscal health of individual large and small military contractors. There is no assurance that this cannot happen again at any time. On the other hand, for a true picture of the industry's stake in Washington development, one must focus on the whole complex of our budgetary structure. *As it did this year, Congress may fret, fume and quarrel over a pending defense appropriation bill and create the impression that its immediate decision seals the fate of the industry. But the fact is that each item of money legislation is only another link in an established chain.*

How Appropriations Work

The industry is meeting payrolls and subcon-

Statistical Data on Leading Aircraft Companies

	1st 6 Months Net Sales 1958 —(Millions)—	1st 6 Months Net Sales 1959 —(Millions)—	Net Profit Margin 1958 %	Net Profit Margin 1959 %	Net Per Share 1958	Net Per Share 1959	Full Year Earned Per Share 1957	Full Year Earned Per Share 1958	Dividend Per Share 1958	Dividend Per Share Indic. 1959*	Price Range 1958-59	Recent Price	Div. Yield %
BEECH AIRCRAFT .... W.C. (mil.) '57–$14.2; '58–$20.0	$ 74.1[1]	$ 64.1[1]	3.3[1]	3.9[1]	$2.97[1]	$3.04[1]	$4.09	$4.03	$1.60	$1.60	40½- 18	34	4.7%
BELL AIRCRAFT .... W.C. (mil.) '57–$20.6; '58–$24.6	100.7	65.7	2.1	2.1	.81	.53	1.62	1.77	.80	.50	24⅜- 14⅞	17	2.9
BOEING AIRPLANE .... W.C. (mil.) '57–$96.9; '58–$190.7	860.7	667.0	2.2	.5	2.78	.48	5.49	4.01	1.00[3]	1.00	58⅛- 32¼	33	3.0
CESSNA AIRCRAFT CO. .... W.C. (mil.) '57–$14.5; '58–$11.7	66.6	77.3	5.2	7.8	4.16	6.17	4.58	5.62	1.60[3]	2.00	89½- 21¼	82	2.4
CHANCE VOUGHT AIRCRAFT ..... W.C. (mil.) '57–$32.0; '58–$37.8	153.8	132.5	3.0	2.3	4.35	2.60	5.65	7.55	1.90	2.00	55¾- 30¾	31	6.4
CURTISS-WRIGHT .... W.C. (mil.) '57–$122.4; '58–$127.0	105.0[5]	86.8[5]	4.7[5]	3.8[5]	.62[5]	.40[5]	5.07	3.11	2.50	2.50	39½- 20⅝	33	7.5
DOUGLAS AIRCRAFT .... W.C. (mil.) '57–$121.1; '58–$187.3	593.9[2]	447.8[2]	2.1[2]	d3.2[2]	3.41[2]	d3.93[2]	8.28	4.41	2.50[3]	1.00[4]	74⅞- 43¼	45	—
GENERAL DYNAMICS .... W.C. (mil.) '57–$136.1; '58–$215.8	789.7	752.3	2.5	1.4	2.04	1.07	4.80	3.71	2.00	2.00	67⅜- 49⅜	50	4.0

W.C.—Working capital.
*—Based on latest dividend rate.
d—Defiit.

1—9 months ended June 30.
2—6 months ended May 31.
3—Plus stock.

4—No dividend action taken 7/15.
5—First quarter.

Beech Aircraft is an important producer of single and twin engine planes for civilian, foreign and military uses. About 73% of backlog consists of military orders but civilian orders are expected to increase. A moderate rise in earnings is indicated for the current year. **B1**

Bell Aircraft: Company is an important builder of commercial and military helicopters. It also produces electronic equipment, plane parts, rocket motors, is engaged in missile and space vehicle work and also produces a variety of industrial products. Earnings are expected to approximate last year's results. **C2**

Boeing Airplane: Substantially lower earnings are indicated for 1959 due to losses on commercial jet production and shifts in military products and prices. Missile activities are increasing and if additional commercial jet orders are received this situation will improve. **B3**

Cessna Aircraft: One of the leaders in the manufacture of private planes and also an important factor in military training and liaison models. Military sales declined in the first half but commercial planes and industrial prdoucts business is likely to increase. A moderate increase in net income is indicated for the current year. **C1**

Chance Vought Aircraft: Earnings are expected to decline sharply this year due to Navy plane cancellations and backlog has been reduced substantially. The 50 cent quarterly dividend is expected to continue. **C3**

Curtiss-Wright: Net income has dropped severely due to military shifts. Company is striving to increase civilian business and also secure new military engine orders. The present dividend of 62½ cents quarterly cannot be consdered secure. **B3**

Douglas Arcraft: Jet airliner development costs continue heavy and further losses are indicated over coming months. Dividend resumption over the near term does not appear likely. Better sales and earnings are expected in the fiscal year. **B3**

General Dynamics: The largest volume of sales is in planes and missiles and company is the leading submarine builder. Developments in outer space projects, atomic power activities, electronics, telephone equipment and other commercial projects are expanding. Heavy development costs have adversely affected earnings but a good improvement is likely next year. **B3**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

tractor invoices today with funds that were voted three to five years ago. Defense spending for the current Fiscal Year, which began July 1, has only recently been approved by Congress. Its dollars haven't begun to flow in the channels of commerce to any major extent. Some of this new money will not be available to industry for several years. There is some $39.2 billion in the budget just approved, about $19 million less that the President originally requested. By Services, the Air Force receives $4.3 billion for aircraft and $2.5 billion for missiles. Navy will have some $2 billion to spend on aircraft and missiles while the Army comes out with about $1.4 billion for its aerospace programs. And even before this money can be spent, the Pentagon is putting together figures which will appear in the Budget Message to be submitted to Congress next January.

From the viewpoint of management and investors, therefore, it is important to remember that, behind the headlines, continuity is preserved. There will be shifts in aircraft and missile procurement by categories; some companies will gain; others may lose. But for the industry as a whole, there are built-in cushions against sudden stops or starts. This stability will also be reinforced as the national space agency makes its spending power felt in increasing volume, since programs of this nature are likely to be less volatile.

The Aircraft Investor

Nevertheless, the investor would be wise to balance the prospects of an individual corporation against this generally stable pattern. It will be remembered that sudden cancellations or cut-backs can materially affect an individual issue, particularly on a short-term basis.

During the past year, for example, **Chance-Vought** saw its Regulus II air-breathing missile program

suddenly swept away although the weapon was considered by military experts to be among the best of its type in the world. Here the Navy decided that funds could be shifted into accelerated development of other items, particularly the **Lockheed** Polaris ICBM. Similar cut-backs affected **Fairchild** and its engine production and **Northrup** and its long-range Snark missile.

Will this sudden shifting of projects occur again in the coming months? The answer to this question lies in the planning going on in the Pentagon today. A survey indicates that most likely, the answer will be "Yes."

Defense Secretary Neil McElroy has let it be known that military *spending* must be held at or near the current levels in the next budget. This means that so-called *"marginal" missile and aircraft programs must make way for other projects.*

Likely Shifts and Adjustments

The shifts and changes of the coming months were in certain cases, inevitable. Some of these were decreed by Congress while others have been spearheaded by the Executive Branch of Government. Funds for the **Boeing** Bomarc are sliced almost in half while a large share of the money requested for the **Douglas** Nike programs was either not approved or approved with severe restrictions. Both of these programs were affected by changing patterns in air defense thinking. Another program affected may well be the **Martin Co.** Mace, an air-breathing missile not too unlike the Navy's cancelled Regulus II. The Pentagon asked for $127.5 million for Mace. Congress refused the entire appropriation but will permit McElroy to take the money from other programs, if he feels such action is necessary. Mr. McElroy has vigorously defended the Mace project in the past but has given no assurances that he will cut into other projects to provide support of this missile in the future.

* * * *

And so the outlook for any single aircraft or missile manufacturer may change from day to day. It is an acknowledged fact, however, that when a program is sharply cut back for a particular supplier the military services tend to favor the company when new programs are allocated, so as to help maintain a strong and diversified industrial base. For the investor, therefore, patience may bring its own rewards.

Mr. McElroy, of course, has wide discretionary powers in the employment of appropriated funds and the Congress in recent weeks has added to this authority, particularly in situations where "breakthroughs" in missile technology may be exploited through additional financial support. The Defense Secretary makes it plain, moreover, that he will not hesitate in recasting procurement programs. Vivid evidence of this comes in his cancellation, through the Air Force, of the much-heralded high-energy chemical fuel program for aircraft. Although research progress on this process has been encouraging, the Pentagon has decided that the extra "zip" in the so-called "zip fuels" is outweighed by cost factors, and by the rapid development of missiles. The decision was, in many respects, a daring one and therefore surprising in its suddeness. Overnight, some $145 million in projects were swept away. Some $10 million had already been spent for **General Electric Co.** development of an advanced jet engine; some $100 million was in the "pipeline" for an Olin Mathieson boron fuel plant in upstate New York and another $35 million had gone for a somewhat similar plant operated for the Navy by the **Callery Chemical Co.** Through these actions one theme appears to predominate—a "calculated risk" that missiles now under development will prove equal or superior to the manned aircraft which would require these facilities during the time period in question.

If the overall prospects are relatively bright on a long-range basis, what can be expected for some of the leaders in the aircraft and missile field in the coming months?

Douglas will, as noted above, have a considerable stake in the eventual outcome of the dispute over various types of air defense. Its orders for the Nike family of missiles are still healthy, but there are prospects for a slowdown in procurement for the shorter-range Nike Ajax and Nike Hercules. Later this year a version of its advanced, long-range Nike Zeus will be tested in the Pacific against Intercontinental Ballistic Missiles. Should these tests prove successful, the prospects for the company will brighten considerably. The company's Intermediate Range Ballistic Missile, the Thor, has proven successful in its extensive testing program but there seems no likelihood that the Air Force will buy large numbers of these missiles unless and until other nations agree to provide launching sites. France, particularly, has been unwilling to negotiate on this point. Meanwhile, the Thor is playing an important role in space exploration projects. Big as the military market is for this company, a large fraction of its resources hinges on the market for its civilian DC-8 jet passenger plane.

Boeing also has a large stake in its Bomarc Air Defense programs. By the combined action of the Defense Department and the Congress, production of this long-range ground to air missile will not be on as large a scale as originally contemplated by the Air Force, although the volume will remain substantial.

In the aircraft realm, Boeing is, of course, well on the way in the jet age. Its 707 passenger planes have airline and passenger approval and a military jet tanker version, the KC-135 is an important adjunct to the Strategic Air Force. Its importance in aerial refueling missions may grow should the Air Force be given approval for plans for a continual airborne alert, under which a given percentage of SAC bombers would be in the air at any one time ready to retaliate instantly if war occurs.

The Boeing B-52 would also play an important role in such a program, although procurement of this aircraft will be easing off. Boeing also has important roles in space research programs, both military and civilian. The most important of these, in terms of expected dollar volume, would be the much-heralded Minuteman, an ICBM which eliminates the costly and complex liquid fuels of other long-range missiles in favor of solid propellants. Minuteman, if successful, will probably be procured in large quantities for deployment in highly bombproof underground "silos." Many of these may also be mounted on railroad flatcars so that they can be shifted around the country, or even on highway

Statistical Data on Leading Aircraft Companies — (Continued)

	1st 6 Months: Net Sales 1958 —(Millions)—	1st 6 Months: Net Sales 1959 —(Millions)—	1st 6 Months: Net Profit Margin 1958 %	1st 6 Months: Net Profit Margin 1959 %	1st 6 Months: Net Per Share 1958	1st 6 Months: Net Per Share 1959	Full Year: Earned Per Share 1957	Full Year: Earned Per Share 1958	Full Year: Dividend Per Share 1958	Full Year: Dividend Per Share Indic. 1959*	Price Range 1958-59	Recent Price	Div. Yield %
GRUMMAN AIRCRAFT .... W.C. (mil.) '57–$37.3; '58–$35.7	$107.5	$131.4	.9	1.3	$ .47	$ .84	$2.38	$1.13	$1.50	$1.50	30¾- 17⅜	25	6.0%
LOCKHEED AIRCRAFT .... W.C. (mil.) '57–$106.4; '58–$105.0	465.7	607.9	2.0	1.4	1.65	1.37	2.76	2.94	1.20	1.20	39¾- 19⅛	28	4.2
MARTIN CO. .... W.C. (mil.) '57–$15.0; '58–$39.7	188.2	248.2	1.9	2.5	1.23	2.12	3.38	4.01	1.60	1.60	62¾- 30	43	3.7
McDONNELL AIRCRAFT .... W.C. (mil.) '57–$30.6; '58–$25.8	442.4[1]	435.8[1]	2.2[1]	2.3[1]	6.33[1]	6.10[1]	6.34	6.33	1.00[3]	1.00[3]	49¾- 22½	34	2.9
NORTH AMERICAN AVIATION ... W.C. (mil.) '57–$120.5; '58–$130.6	678.8	743.7	2.6	2.9	2.27	2.70	4.23	3.34	1.60	1.60	52⅝- 25⅜	39	4.1
NORTHROP AIRCRAFT .... W.C. (mil.) '57–$22.3; '58–$28.1	191.6[2]	195.5[2]	2.4[2]	2.7[2]	2.99[2]	3.06[2]	3.62	4.29	1.60	1.60	44¾- 22⅛	31	5.1
REPUBLIC AVIATION .... W.C. (mil.) '57–$34.9; '58–$35.8	86.3	109.8	1.7	1.4	1.04	1.07	4.15	3.48	2.00	1.00	29½- 16½	20	5.0
UNITED AIRCRAFT .... W.C. (mil.) '57–$141.0; '58–$147.6	635.8	545.5	3.5	2.8	3.44	2.36	7.97	6.41	3.00	2.00	69⅞- 45¼	44	4.3

W.C.—Working capital.
*—Based on latest dividend rate.

1—Years ended June 30.
2—9 months ended April 30.
3—Plus stock.

Grumman Aircraft: Earnings are expected to show a sharp increase this year with backlog of military orders larger and new civilian developments aiding current results. The 37½ cent quarterly dividend yields an excellent income. **C1**

Lockheed Aircraft: Missile and space vehicle business is rising and commercial plane deliveries should boost 1959 total sales but development expenses on the Electra plane continue heavy and thus profits are expected to be moderately lower this year. **B3**

Martin Co.: Largest volume is in missiles and electronic systems and company also holds contracts on nuclear energy projects. Plane output is declining but growth in missiles should raise current sales and net profit is expected to moderately better last year's results. **C1**

McDonnell Aircraft: Sales and earnings over coming months are expected to approximate the annual rate of the previous period, as backlog continues large. Company is engaged in missile and space projects and is also an important supplier of Air Force and Navy Jet fighter planes. The outlook continues favorable. **B2**

North American Aviation: Rocket engines missiles electronics, and control equipment orders should increase but aircraft output is likely to decline. Development work on supersonic bomber and other projects should lift total volume, and net earnings are expected to show a moderate increase. **B1**

Northrop Corp.: Bulk of backlog is currently in missiles, drones, electronics and space projects. Moderately increased sales and earnings are indicated over coming months. **C1**

Republic Aviation: Earnings are expected to be sharply lower this year as backlog is smaller and some contracts have been changed to a fixed-price basis from cost-plus fixed fee. Dividend has been reduced to 25 cents quarterly. The stock must be regarded as speculative. **C3**

United Aircraft: This leading manufacturer of aircraft engines, propellers and helicopters reported a sharp decline in earnings in the first half of this year and the quarterly dividend was recently reduced to 50 cents. The company is striving to increase its entry into the missile and space age fields but development expenditures are heavy. Company has an exceptionally good past record and operations should improve next year. **B3**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

trailers or river barges where they could not be "zeroed in" by the enemy.

General Dynamics has a substantial interest in military and civilian aero-space enterprises through Convair and the Atlas ICBM as well as the supersonic B-58 Hustler bomber. Difficulties during the testing of the Atlas appear to have been largely eliminated. Congress demonstrated its interest in this missile by increasing the number of authorized squadrons to 17.

The Administration originally asked for only nine squadrons but later supported the increase. The Atlas is also playing a major role in advanced space systems. Procurement appears to be scheduled for several years ahead for both purposes although the Atlas may eventually be "phased out" if the Martin Co. Titan demonstrates that its advanced design makes it preferable. Convair also stands to benefit from "Red-Eye", a new one-man guided missile system which is designed to give the foot-soldier the capability of destroying low strafing or bombing aircraft.

Prospects are less clear for the B-58. The Air Force has just cancelled orders for eight of the B-58 Hustler bombers in an economy move expected to save over $200 million. Only 32 B-58s will be bought this year as against original plans to buy 40 of these delta-wing aircraft. On the civil side, the company has high hopes for its 880 jet transport which has been flying at speeds in excess of 600 miles per hour during its flight test program. General Dynamics has a bright future in other projects, notably the Electric Boat Division which has been engaged in turning out nuclear submarines and is working on the complex submarines required for the Navy's Polaris missile.

Lockheed, long a leader in the airframe industry, has moved into the advanced missile and space field with increasing emphasis. The Polaris, a solid-fuel Intermediate Range Ballistic Missile, is expected to play a major role in future Naval Strategy. In addition to launching from submarines, plans are now underway to fire the Polaris from larger Navy ships at sea. Despite technical difficulties common to most missile programs in the early stages the Navy is confident that schedules will be met.

The company is also deeply involved in highly-secret satellite reconnais- *(Please turn to page 680)*

FOR PROFIT AND INCOME

Not So Big

By present standards, the market's plunge on Monday, August 10, was wide and startling. Measured by intraday extremes, it was about 28 points for the Dow industrial average; but, from a level above 675, that was only some 4.2%. The break following news of the President's heart attack in mid-1955 was 8.8% in one day, extending to about 11.5% over the next 11 trading sessions. In the first day after news of the start of the Korean War in mid-1950 it was 5.6%, mounting to over 13% in a total of 13 trading sessions. There was real violence in old-time bear markets. Before the 1929-1932 decline settled down to dreary attrition, there were a number of instances in which one-day variation from high to low in the average was in the vicinity of 10% or more. In the modern market, total declines, over some days or weeks, have seldom reached 10% or more except when associated with major news shocks or expectation of business recession.

Warning

Some of the electronic-space-age stocks are off 20% to 40% from their highs at this writing. That makes them cheaper than they were — or less dear. In a "special situation" of this kind, some people feel tempted to buy because the reaction is so deep. But it may not be a "reaction." Exceptional market vogues are never permanent, and this one had long been extraordinary. It could be over. Regardless of technical rallies, it is questionable whether most of these stocks can regain their earlier popularity in the presently foreseeable future, especially where price-earnings ratios remains greatly above average.

Income Stocks

Because of the market's wide rise since the autumn of 1957, expectations of slower future gains in business activity and earnings, and the performance since the August 3 high was recorded, the general mood of institutional and individual investors is more sober than in some time. Yet there is plenty of cash need-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Champion Paper & Fibre Co.	Quar. June 30	$ .55	$ .37
Westinghouse Electric	Quar. June 30	1.12	.97
American Machine & Metals	Quar. June 30	.90	.61
Blaw-Knox Co.	Quar. June 30	1.28	.94
Bohn Aluminum & Brass	Quar. June 30	.87	.51
Commercial Solvents Corp.	Quar. June 30	.26	.14
Atlas Powder Co.	Quar. June 30	1.54	.95
Bridgeport Brass Co.	Quar. June 30	1.08	.52
U. S. Rubber Co.	Quar. June 30	1.30	.61
Greyhound Corp.	6 mos. June 30	.59	.17

ing employment. Where will it go? More of it than previously will go into short-term Treasury obligations and selected income stocks. Among the latter, preference will be given to equities promising sufficient, even if moderate, growth of earnings and dividends to offset possible further "creeping inflation" on the order of that of recent years; or income stocks reasonably priced on improving earnings and offering fairly good yields. Aside from numerous utilities, examples of stocks which could get relatively more investment support include American Can, American Chicle, American Tobacco, Borden, Brown Shoe, C. I. T. Financial, Corn Products, W. T. Grant, National Biscuit, Reynolds Tobacco and Woolworth.

Valuations

Average price-earnings ratios of industrial stocks are well above those commanded under favorable conditions in the past; but this is widely so mostly in the case of prized Blue-Chip growth stocks and a minority of special-situation speculations. Price-earnings ratios of a fair number of medium-grade stocks, as well as of some speculative issues, are relatively reasonable and not out of line with those attained in various earlier years. One example is Armstrong Cork at 42½, around 12 times likely record 1959 earnings in the vicinity of \$3.50-\$3.60 a share, against \$2.59 in 1958 and previous peak of \$2.81 in 1955. The company makes hard-surface floor coverings and other building items; packaging materials; and industrial specialties. Its gain reflects general business improvement, but also a major expansion-modernization and cost-cutting program. A further 1960 profit rise is likely. Now at \$1.40 regular, raised from \$1.20, dividends should total \$1.60 with the year-end extra. The stock appears undervalued, with possibilities for working above 50 over a period of time.

Another

Emphasizing quality of trade-marked products, Simmons Company is the largest maker of mattresses, bedding box springs and related items. The field is keenly competitive. Best profits (over \$7.00 a share) were attained early in the postwar period, when there was a catching-up demand to be served; but subsequent profits have been fairly good in a range of roughly \$4.00 to \$5.30. Recent trends suggest something like \$5.40 to \$5.60 this year, up from 1958's earnings of \$4.07. Extension of the rise in personal income, a broadened product line and increased manufacturing efficiency should bring higher 1960 earnings. With finances strong, the \$2.40 dividend could well get back, perhaps in two stages, to the \$3.00 level of several past years, including as recent a year as 1957. The stock sold at 59½ in 1956 on profit of \$5.17 a share, or at about 11.5 times earnings. It is moderately priced now at 55, around 10 times 1959 earnings.

Relative Market Strength

The following stock groups are performing materially better than average at this writing: Auto parts, coal, finance companies, baking, food brands, paper, electric utilities, natural gas stocks, shipbuilding, shipping, shoes, sulphur, textiles and tobaccos. Current behavior of the following is poorer than average: air conditioning, aircraft, air transport, aluminum, electronics-TV-radio issues, meat packing, machinery, office equipments, and railroads.

Too High?

The 13% first-half earnings gain of Westinghouse Electric was below the average in the durable goods field. So were its new orders. Price easing in some heavy equipment is adverse. Profit for 1959 will do well to reach around \$4.40 a share, against 1958's \$4.25. On this basis, the stock of the second-ranking company in its field is priced at about 20 times earnings and around 23 times average ten-year profits through 1959. Peak profit (\$5.36 in 1950) has yet to be equalled. For comparison, consider the following approximate current price-earnings on 1959 and ten-year average earnings: Deere, leader in farm equipment, 8.0 and 13.0; Babcock & Wilcox, leading maker of steam generating equipment, 12.6 and 16.5; Link-Belt, entrenched maker of materials-handling and related equipment, 15.4 and 14.6; Ford Motor, 9.5 and 17.4; and Jones & Laughlin, among the better-situated steel companies, 10.0 and 15.0. Conclusion: At 92, Westinghouse is over-priced on 1959 earnings, past average long-term earnings and probable 1960 earnings; and various other medium-grade stocks are preferable holdings on a relative basis.

Emerson Electric

This company has an above-average record. It is mainly a maker of small electric motors and related items, and of military electronic products, the latter accounting for moderately more than a third of sales. Recent strong gains suggest profit around \$4.75 a share for the fiscal year ending September 30, a new record, up from the prior year's slightly improved \$3.49. It could well be substantially higher in the coming year. Dividends are at \$1.60, plus a likely year-end stock extra (3% last year). The stock is off from high of 69⅞ to 62. Selling around 13 times current annual earnings, it is one of the most reasonably priced and basically solid issues in the electrical-electronics group, though possible further price dips could add to its relative attractiveness.

Retail Outlook

In line with the trend of con-

(Please turn to page 682)

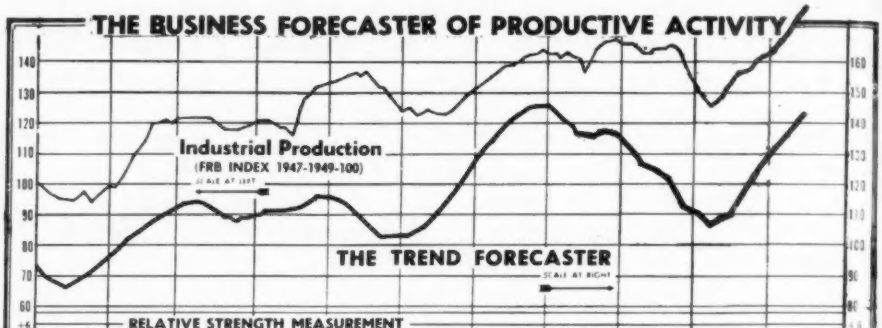
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Myers (F. E.) & Bros.	9 mos. June 30	\$2.18	\$2.62
Sunshine Biscuits	6 mos. June 30	3.02	3.12
United Gas Corp.	6 mos. June 30	1.37	1.42
Moore-McCormack Lines	Quar. June 30	.17	.36
White (S. S.) Dental Mfg.	6 mos. June 30	1.55	2.96
Niagara Mohawk Power	6 mos. June 30	1.33	1.38
Cunningham Drug Stores	9 mos. June 30	2.16	2.56
Duval Sulphur & Potash	Quar. June 30	.61	.72
Penick & Ford, Ltd.	Quar. June 30	.70	.73
Union Tank Car	6 mos. June 30	.81	1.16

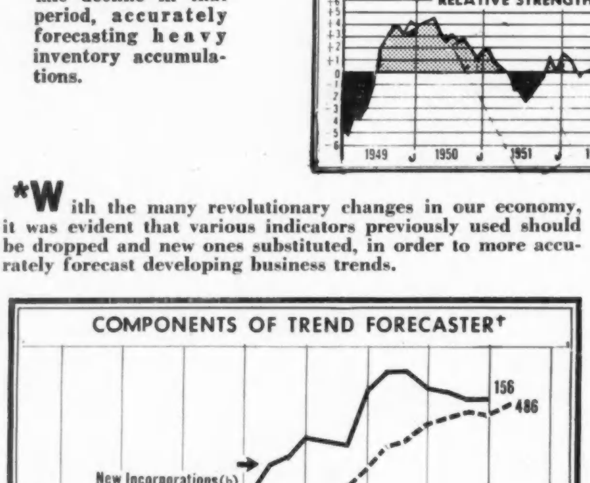
the Business

Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.



***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Early in the summer, the Trend Forecaster and many of its component series are being distorted by the steel strike and its widening consequences. However, a close examination of the chart of component series, on the left, suggests that even before the steel strike several of the uptrends characteristic of late 1958 and early 1959 had abated. This is particularly true of new incorporations and average hours worked; with minor qualifications, it is also true of new orders for durable goods, and housing starts. Stock prices had been strong but seem to be turning down in August.

The relative Strength Measurement, which summarizes the behavior of the individual indicators, has stopped rising, and has begun to display some tentative notes of weakness. It remains well up in the positive range, and it is worth noting that it declined for a considerable period in 1955 and 1956 before the business peak. Nevertheless, the measurement is now beginning to point to an area of caution for the business trend starting at about mid-1960.

Analyst

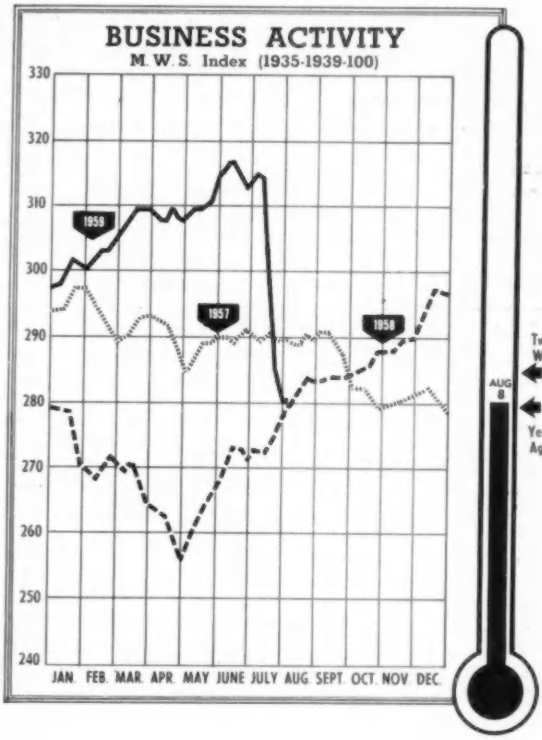
CONCLUSIONS IN BRIEF

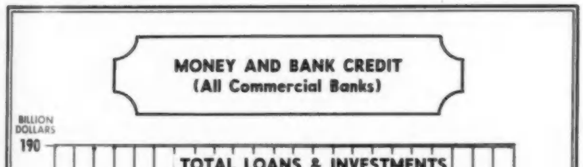
PRODUCTION — **Steel strike has interrupted advance in July and August, but resumption is assured in the Fall. Operating rates to rise, on average, another 5% or 6% by winter as a result.**

TRADE — **now running sideways, but at a record level. Retail inventories rising, but still far from excessive. Outlook: stable sales volume, at about $18.3 billion per month, through the Fall season.**

MONEY & CREDIT — **the steel strike has temporarily eased the short- term market, as inventories are converted into cash. But new pressure on short-term rates expected after steel settlement. Long-term market now tightening, housing funds growing scarcer.**

COMMODITIES — **still no clear trend, despite strikes and threatened strikes. Agricultural commodities still easing slowly. Outlook: modest strength in industrial commodities, offset by farm weakness, through late Fall.**





A LOOK at business prospects for the fall and winter of 1959 is most reassuring. In industry after industry, rising volume and favorable earnings are being reported with pleasant, if monotonous, unanimity, and far more than the usual proportion of corporate presidents have been willing to describe their own company's outlooks as distinctly favorable. But just because the impression of prosperity ahead appears to be rather unanimous, it is important to appraise the underlying causes of the expected uptrend, and their longevity.

The dominant element in the current assurance about business prospects is strongly related to the probable behavior of inventory demand over the next several quarters. In steel, an inventory catchup will doubtless be in progress once the strike is over; but inventory demand is by no means limited to steel. In fact, throughout manufacturing and retailing, the relationships of inventory to sales are strikingly, one might almost say sensationally, low. It is as close to certainty as an economic forecast can hope to get, to say that buyers for retail establishments, and purchasing agents for manufacturing companies, will be favoring an increase in the level of shelf stocks throughout the remainder of 1959 and well into 1960.

At the same time, the evidence now appears reasonably assured that capital spending by business will be climbing sharply throughout the same period. By all indications, the supply of funds to corporations will be quite adequate to meet the combined requirements of increased investment in inventory

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	July	153	155	134
Durable Goods Mfr.	1947-'9-100	July	169	172	141
Nondurable Goods Mfr.	1947-'9-100	July	146	145	132
Mining	1947-'9-100	July	119	125	116
RETAIL SALES*	$ Billions	July	18.2	18.2	16.6
Durable Goods	$ Billions	July	6.1	6.1	5.2
Nondurable Goods	$ Billions	July	12.1	12.0	11.4
Dep't Store Sales	1947-'9-100	July	147	144	140
MANUFACTURERS'					
New Orders—Total*	$ Billions	June	31.1	30.5	25.8
Durable Goods	$ Billions	June	15.8	15.2	12.2
Nondurable Goods	$ Billions	June	15.3	15.3	13.5
Shipments*	$ Billions	June	31.3	30.7	25.7
Durable Goods	$ Billions	June	15.8	15.5	12.1
Nondurable Goods	$ Billions	June	15.5	15.2	13.7
BUSINESS INVENTORIES, END MO.*	$ Billions	June	89.1	88.3	86.4
Manufacturers'	$ Billions	June	52.1	51.6	50 2
Wholesalers'	$ Billions	June	12.3	12.2	12.1
Retailers'	$ Billions	June	24.7	24.5	24.1
Dept. Store Stocks	1947-'9-100	June	155	151	147
CONSTRUCTION TOTAL	$ Billions	July	5.2	5.0	4.5
Private	$ Billions	July	3.6	3.5	3.2
Residential	$ Billions	July	2.1	2.1	1.6
All Other	$ Billions	July	1.5	1.4	1.6
Housing Starts*—a	Thousands	July	1350	1370	1174
Contract Awards, Residential—b	$ Millions	June	1761	1677	1364
All Other—b	$ Millions	June	1897	1865	2456
EMPLOYMENT					
Total Civilian	Millions	July	67.6	67.3	65.2
Non-Farm *	Millions	July	52.6	52.4	50.4
Government *	Millions	July	8.2	8.1	7.9
Trade *	Millions	July	11.4	11.4	11.1
Factory *	Millions	July	12.6	12.6	11.5
Hours Worked	Hours	July	40.4	40.7	39.2
Hourly Earnings	Dollars	July	2.23	2.24	2.13
Weekly Earnings	Dollars	July	90.09	91.17	83.50
PERSONAL INCOME*	$ Billions	July	384	384	364
Wages & Salaries	$ Billions	July	261	262	243
Proprietors' Incomes	$ Billions	July	59	52	58
Interest & Dividends	$ Billions	July	36	35	33
Transfer Payments	$ Billions	July	27	26	27
Farm Income	$ Billions	July	16	16	18
CONSUMER PRICES	1947-'9-100	June	129.5	129.0	123.7
Food	1947-'9-100	June	118.9	117.7	121.6
Clothing	1947-'9-100	June	107.3	107.3	106.7
Housing	1947-'9-100	June	128.9	128.8	127.8
MONEY & CREDIT					
All Demand Deposits*	$ Billions	July	113.9	112.5	109.5
Bank Debits*—g	$ Billions	July	98.1	94.1	84.0
Business Loans Outstanding—c	$ Billions	July	29.6	29.5	N.A.
Instalment Credit Extended*	$ Billions	June	4.0	4.0	3.3
Instalment Credit Repaid*	$ Billions	June	3.5	3.6	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	June	10.0	5.4	10.8
Budget Expenditures	$ Billions	June	8.6	6.2	6.6
Defense Expenditures	$ Billions	June	4.4	3.6	4.3
Surplus (Def) cum from 7/1	$ Billions	June	(12.5)	(14.0)	(2.8)

PRESENT POSITION AND OUTLOOK

and fixed assets.

Finally, the consumer is about to be deluged with the broadest array of new automobile models to hit the market since 1955. Students of the automobile market are now nearly unanimous in expecting a further improvement in sales of domestic cars in 1960, from a 1959 level that is very satisfactory indeed.

These are the main reasons for short term confidence in the business trend. They are very cogent reasons, and not to be disputed. But it is worth bearing in mind that behind them, and gradually waxing in importance, are *intensely tight money conditions,* probably *declining residential building activity,* an *unsolved problem of rising imports and disappearing gold,* a *sensitive level of stock prices,*—and a possible period of confused *reorientation if defense requirements should lessen materially in the next year or two.* These are the factors that must gradually tip the boom into stability and perhaps recession; they are the factors to which increasing analytical attention should now be directed.

* * *

PERSONAL SAVING — this remains one of the crucial controls over inflation, and thus far the consumer is doing his share of controlling. In the second quarter, the personal saving rate has continued to run a little better than 7% of personal income after taxes; somewhat less than in the three preceding years, but well above the rate in the inflationary environments of 1950 and 1955. The 7% saving rate is an indication that nothing resembling scare buying, or any other kind of wild buying spree, is in progress. The consumer is watching his spending with characteristic caution.

He is however, also borrowing with unaccustomed celerity. In recent months, *installment debt outstanding has been rising at about $5 billion a year, the highest rate since 1955.*

How are these conflicting trends rationalized? Probable answer: families whose breadwinners were laid off in 1958, and have been reemployed in 1959, are rebuilding

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter II	1959 Quarter I	1958 Quarter IV	1958 Quarter II
GROSS NATIONAL PRODUCT	484.5	470.2	457.1	434.5
Personal Consumption	311.2	303.9	299.1	290.9
Private Domestic Invest.	77.5	69.8	61.3	51.3
Net Exports	—1.8	–0.9	0.2	1.2
Government Purchases	97.7	97.4	96.5	91.1
Federal	53.9	53.8	54.2	51.3
State & Local	43.8	43.8	42.2	39.7
PERSONAL INCOME	381.1	371.8	366.3	355.0
Tax & Nontax Payments	45.8	44.4	43.4	42.1
Disposable Income	335.3	327.4	322.9	312.9
Consumption Expenditures	311.5	303.9	299.1	290.9
Personal Saving—d	23.8	23.5	23.7	22.0
CORPORATE PRE-TAX PROFITS	—	46.5	44.6	33.6
Corporate Taxes	—	22.6	21.9	16.5
Corporate Net Profit	—	23.8	22.7	17.1
Dividend Payments	13.0	12.8	12.0	12.6
Retained Earnings	—	11.0	10.7	4.5
PLANT & EQUIPMENT OUTLAYS	32.3	30.6	30.0	30.3

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Aug. 8	280.4	279.7	279.8
MWS Index—per capita*	1935-'9-100	Aug. 8	205.7	205.2	208.8
Steel Production	% of Capacity	Aug. 15	11.7	11.2	60.5
Auto and Truck Production	Thousands	Aug. 15	85	119	76
Paperboard Production	Thousand Tons	Aug. 8	337	331	289
Paperboard New Orders	Thousand Tons	Aug. 8	367	352	298
Electric Power Output*	1947-'49-100	Aug. 8	251.8	253.6	237.4
Freight Carloadings	Thousand Cars	Aug. 8	523	544	619
Engineering Constr. Awards	$ Millions	Aug. 10	412	412	337
Department Store Sales	1947-'9-100	Aug. 8	131	121	120
Demand Deposits—c	$ Billions	Aug. 5	61.2	62.2	59.8
Business Failures—s	Number	Aug. 6	274	252	290

PRESENT POSITION AND OUTLOOK

their living standards in the only way they can—by borrowing. Families which never suffered separation from a payroll in 1958 are evidently now spending more carefully than usual, perhaps because they have enjoyed five years of continuous prosperity and rising incomes. Result: *high spending, and high saving and high borrowing, all at the same time.*

* * *

PRODUCTION TREND — it's still clearly upward, despite the interruption to durables manufacturing owing to the steel strike. In July, the Federal Reserve's index of industrial production slipped a few points, almost entirely because of the decline in steel output itself. In August, steel production has sunk to a bare 15% of capacity, and the industrial production index has evidently declined a point or two further. If the strike continues into September, shutdowns will begin to appear in a number of metalworking industries, but not on a broad scale until late in the month. In any event, beyond the strike lies a sharp recovery in output rates in steel itself, in autos, in machinery. A new high for industrial production seems assured for late 1959.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959 Range High	1959 Range Low	1959 Aug. 7	1959 Aug. 14
300 Combined Average	492.4	436.9	484.0	477.6
4 Agricultural Implements	492.4	356.2	471.4	467.9
3 Air Cond. ('53 Cl.—100)	137.2	120.2	121.4	120.2L
10 Aircraft ('27 Cl.—100)	1375.1	1117.3	1154.1	1117.3L
7 Airlines ('27 Cl.—100)	1429.4	1079.6	1249.5	1209.5
4 Aluminum ('53 Cl.—100)	594.5	392.0	542.8	534.2
5 Amusements	250.6	200.5	250.6	244.9
6 Automobile Accessories	525.8	413.4	525.8	517.8
6 Automobiles	128.1	93.7	124.3	121.4
4 Baking ('26 Cl.—100)	41.3	38.7	41.3	40.9
4 Business Machines	1395.5	1225.9	1252.0	1239.0
6 Chemicals	835.5	692.9	835.5	808.4
4 Coal Mining	37.8	28.1	37.0	36.1
4 Communications	203.8	164.6	197.2	192.3
9 Construction	178.9	158.7	175.8	172.7
7 Containers	1142.6	988.8	1098.7	1076.7
6 Copper Mining	344.6	280.7	325.1	327.9
2 Dairy Products	161.7	138.8	161.7	161.7
6 Department Stores	141.5	119.1	140.3	137.9
5 Drugs-Eth. ('53 Cl.—100)	475.4	379.5	455.4	455.4
6 Elec. Eqp. ('53 Cl.—100)	335.3	268.8	263.4	263.4
3 Finance Companies	769.7	661.8	330.0	330.0
5 Food Brands	466.0	406.3	748.1	726.5
3 Food Stores	279.6	247.1	466.0	466.0

(Nov. 14, 1936 Cl.—100)	High	Low	Aug. 7	Aug. 14
100 High Priced Stocks	306.7	268.4	301.7	297.8
100 Low Priced Stocks	665.9	585.4	652.5	641.6
5 Gold Mining	996.6	853.0	895.3	895.3
4 Investment Trusts	190.6	174.2	181.5	177.9
3 Liquor ('27 Cl.—100)	1624.8	1429.2	1624.8	1579.6
8 Machinery	563.2	452.4	549.9	536.6
3 Mail Order	396.9	253.1	392.0	375.0
4 Meat Packing	267.2	204.4	261.3	251.5
5 Metal Fabr. ('53 Cl.—100)	211.2	181.3	205.9	202.4
9 Metals, Miscellaneous	409.6	369.4	373.0	369.4
4 Paper	1287.1	1170.1	1240.3	1287.1H
22 Petroleum	885.5	776.9	818.7	802.0
21 Public Utilities	365.4	338.3	351.8	355.2
6 Railroad Equipment	104.1	86.9	101.5	100.6
20 Railroads	78.2	71.7	73.9	73.1
3 Soft Drinks	703.6	599.8	692.0	703.6H
12 Steel & Iron	468.8	392.5	461.1	457.3
4 Sugar	144.7	95.2	100.4	101.7
2 Sulphur	863.3	664.7	733.4	710.5
11 TV & Electron. ('27 Cl.—100)	107.1	65.6	89.8	89.8
5 Textiles	259.6	176.6	247.2	245.5
3 Tires & Rubber	281.8	216.1	269.1	256.4
5 Tobacco	191.5	172.9	188.1	186.5
3 Variety Stores	360.6	331.4	360.6	357.4
20 Unclassif'd ('49 Cl.—100)	284.9	239.8	275.4	268.3

H—New High for 1959. L—New Low for 1959.

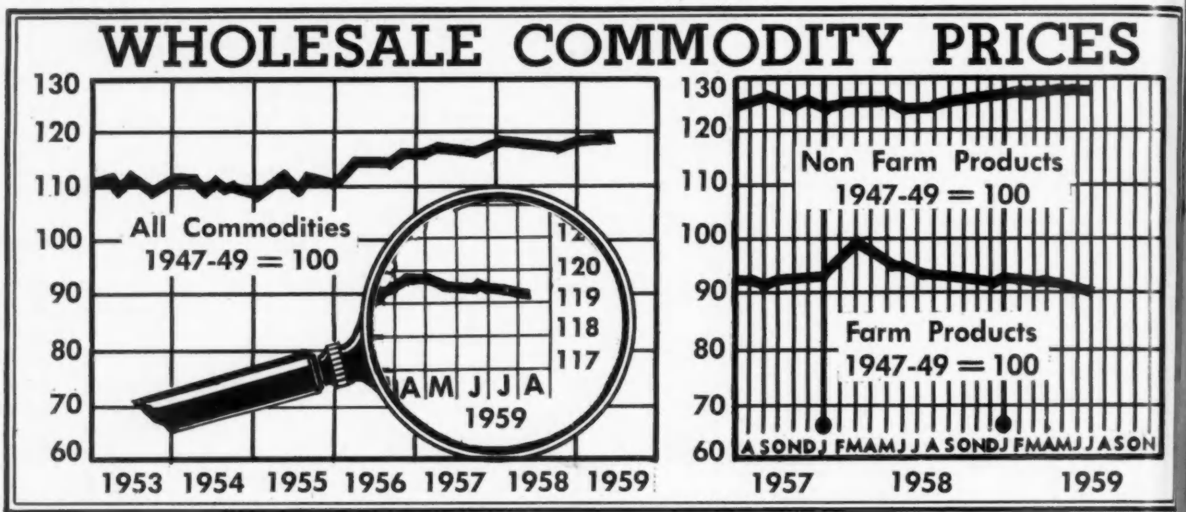
Trend of Commodities

SPOT MARKETS—Raw food prices were lower in the two weeks ending August 14, and this accounted for the 0.3% drop in the Bureau of Labor Statistics daily index of 22 sensitive commodities. The foodstuffs component fell 1.3% while the raw industrial materials' index rose 0.4%. Among the latter, burlap, copper scrap, rubber, tin and wool tops all advanced while cotton and tallow were lower.

Among the rank and file of commodities, a similar pattern of falling food and farm prices took place in the two weeks ending August 11 while the BLS weekly wholesale price index of all other commodities held steady. With inflation fears considerably muted in recent weeks, no early changes in these trends are to be expected, although strike influences could temporarily boost the prices of individual commodities that are affected.

FUTURES MARKETS—Futures prices were mixed in the two weeks ending August 14. Most raw industrial materials, especially metals, were strong, but farm products weakened in most cases. Higer prices were registered by copper, lead, zinc, rubber and coffee, while lower quotations ruled for oats, soybeans, lard, wool and hides.

Wheat futures at Chicago showed little trend during the period under review. The nearby September option lost 1½ cents while the May future was ½ cent higher. At the same time, future prices at Kansas City and Minneapolis have been advancing steadily. The sluggishness in Chicago is attributable to currently heavy supplies of soft red winter wheat which affect that market. As these supplies are consumed, Chicago futures should catch up to the advance in the other cities.



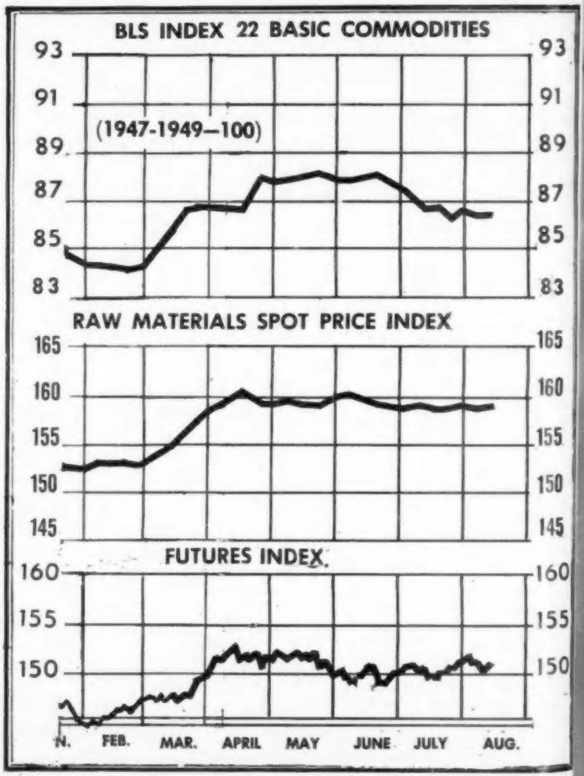
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Aug. 11	119.1	119.2	119.1	60.2
Farm Products	Aug. 11	87.1	87.5	93.2	51.0
Non-Farm Products	Aug. 11	128.2	128.2	126.1	67.0
22 Sensitive Commodities	Aug. 14	86.6	86.9	86.8	53.0
9 Foods	Aug. 14	78.3	79.4	87.7	46.5
13 Raw Ind'l. Materials	Aug. 14	92.6	92.2	86.0	58.3
5 Metals	Aug. 14	94.9	94.3	89.7	54.6
4 Textiles	Aug. 14	79.8	79.9	79.1	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	160.5	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year		152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1



Answers to Inquiries...

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1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities at* reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope*.**
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

General Mills

"I recently renewed my subscription to the Magazine of Wall Street and as I am interested in receiving data on General Mills I would appreciate what information you can give me."

C. I., Portland, Maine

General Mills is the largest flour miller and it has diversified its business through production of various grocery products, chemicals, formula feeds and electro-mechanical devices, etc.

Sales for the fiscal year ended May 31, 1959 totalled $545,998,000, up more than $16 million above last year. The latest annual figures was the 8th consecutive report listing a new all-time sales record for the company.

Earnings of $16,817,000 for the fiscal year also represent a new high. The earnings figure is $2,123,000 above the previous record year of 1957-58. The increase in earnings was at a greater rate than the increase in sales. This was due to upgrading of products, research, new process installations, and searching market analysis combined to win customer approval.

Earnings for the 1958-59 fiscal year amounted to $6.77 per share of common stock, as compared to $5.94 the previous year. Dividends per share of common stock were continued during the year at $3.00, and the regular $5.00 was paid on the preferred.

Stockholders have voted approval of the 3-for-1 stock split and a quarterly dividend of $0.30 has been declared on the new shares, equivalent to $1.20 annually.

The company reports progress in its foreign activities such as those of Protex, S. A. a wholly owned subsidiary with a plant near Mexico City for the processing of steroid intermediate compounds; Habib-General Ltd., of Karachi, Pakistan, a quar gum producing plant in which General Mills owns a 60% interest; and General Mills de Venezuela, S. A., subsidiary company which oversees the milling and marketing of General Mills brand of flour in Venezuela. The company also announced formation of Nuclear Equipment Ltd. of Watford, England, a jointly owned company organized during the fiscal year by General Mills and Savage & Parsons Ltd.

The Grocery Products Division introduced a number of new, convenient food products in the past year. Canadian operations were also further expanded.

The Chemical Division introduced a series of new fatty nitrogen compounds for industry. The Mechanical Division designed and delivered the first inertial guidance computers for the Mace missile of the U. S. Air Force; a huge remotely controlled "thimble loader" for underwater operation at the new Westinghouse Testing Reactor in Waltz Mill, Pa. and the "Aerocap Balloon", an aerodynamically shaped light - weight balloon for suspending instruments or transporting heavy loads.

The company's current research program is expected to develop new products in its various divisions and the near and long term outlook for the company continues good.

H. J. Heinz Company

"I have been a subscriber to your valued magazine for a good many years and would appreciate receiving information on H. J. Heinz Co"

C. L., Lansing, Michigan

H. J. Heinz Co. is an old established and progressive company in the food industry. Its trademark "57 Varieties" is known round the world. Foreign business is important, representing the largest portion of consolidated net profits in the latest year and a substantial portion of net assets.

Consolidated net sales for the fiscal year ended April 29, 1959 were $316,856,669, an increase of $23,044,852, or 8%, over the $293,811,817 reported last year. This was a new record high in sales and net income in the 90th year of Heinz Co. operations.

Consolidated net income after taxes during the past fiscal year, rose 19% to $11,095,742, as compared with last year's net of $9,336,913, and was 4% above the previous high record in 1957. This income, after allowing for dividends on the company's preferred stock, is equal to $6.41 per share of common stock, an increase of $1.05 over the $5.36 per share earned last year.

Cash dividends paid for the 48th consecutive year on the common stock amounted to $2.20 per

(Please turn to page 682)

Oil Industry Faces Problems — Opportunities On Its Hundredth Birthday

(Continued from page 642)

A Look at The International Oils

The international oil companies face a somewhat contrasting situation. Oil demand abroad has not followed the same pattern as at home. Last year it increased by an astonishing 10%, although this year it will probably show a more modest growth of about 7%. Prices abroad, both for crude and finished products, have lately been lower than in the United States. One of the difficulties which oil companies are now facing in foreign markets is the oversupply of both oil and coal. This is particularly strong in Western Europe, the largest oil consuming area outside the United States. Consumption in Western Europe has so far risen in the face of growing stocks of domestic coal and despite considerable pressure on the part of the coal industry and unions to choke off the importation of oil. But now the German government, for the specific purpose of protecting coal, is threatening to impose an onerous tax on heavy fuel oil imports. The measure would affect the exports of the major refining companies in Venezuela, especialy Shell and Esso, both of which are large fuel oil suppliers to Western Europe. A similar, although less drastic, measure may also be undertaken by the British government if coal stocks in that country keep piling up.

Thus, as usual, the international oil industry's problems are more of a political than economic nature. But because of that very fact they are often more temporary than those of our domestic industry. In the long run, foreign oil demand will continue to grow at about twice the rate of domestic demand. The oil companies which serve these markets are, therefore, bound to benefit by this trend, notwithstanding short-term setbacks.

The following appraises the position of individual companies:

Amerada Petroleum — One of leading domestic producers, with large oil and gas reserves. A re-

cent entrant in foreign exploration, with potentially important position in Libya.

Atlantic Refining — East coast refiner and marketer making progress toward increasing crude production, both domestic and foreign. Management is alert and improving position of company.

British American Oil — A leading integrated oil company in Canada. Owns important gas reserves and is a primary supplier of Trans-Canada Pipe Lines. Gulf Oil controls 58% of B. A.

British Petroleum — Engaged in producing, refining and marketing, mainly in Eastern Hemisphere. Almost entire crude production in Middle East. Company is taking long-range steps to enter Western Hemisphere.

Cities Service — One of leading integrated domestic companies, although crude output is less than refinery requirements. In a position to benefit from any industry-wide improvement in refinery margins.

Continental Oil — Aggressive and well managed leading company in all divisions of domestic industry. Crude sufficiency, with large oil and gas reserves. Good growth outlook, aided by recent refining and marketing acquisitions.

Creole Petroleum — Important subsidiary of Jersey Standard and largest producer and refiner in Venezuela. Recent earnings affected adversely by higher Venezuelan taxes and U. S. import restrictions. Future growth in part dependent on sales in foreign markets.

Getty Oil — Controls Skelly Oil and Tidewater Oil. Large oil reserves in the Kuwait-Saudi Arabia neutral zone. Amalgamation of companies in Getty group a future possibility.

Gulf Oil — One of the major integrated and international oil units. Large reserves in Kuwait in Middle East, as well as in Venezuela and U. S. Excellent growth record. Strong producing, refining and marketing position.

Humble Oil — Important subsidiary of Jersey Standard. A major producer and refiner in southwest. Owns large reserves of crude oil and natural gas. Crude output now restricted by Texas proration.

Imperial Oil — About 70% controlled by Standard Oil of New Jersey. The leading producer, refiner and marketer in Canada, and should benefit in future years from Canadian growth.

Kerr-McGee Oil — A diversified oil and uranium company. Relatively heavy capital expenditure program in recent years, which should benefit future.

Ohio Oil — Crude production about twice refinery requirements. Increasing foreign exploration. Recently, acquired Aurora Gasoline, large independent refiner and marketer in midwest.

Phillips Petroleum — A leading integrated oil company. Also one of largest factors in natural gas. Good long-term growth outlook. Well managed.

Plymouth Oil — One of smaller units in industry, engaged in producing, refining and marketing. Expanding foreign exploration.

Pure Oil — A more active domestic exploration program, plus recent Venezuelan discoveries, point to improvement in company's oil and gas resrves, which are already substantial. Better product prices would result in higher earnings.

Richfield Oil — Moderate-size integrated oil company, operating primarily on the West Coast. Exploration in California and Alaska offers possibilities.

Royal Dutch Petroleum — Company is the second largest in the world oil industry. About one-half of crude production in the Western Semisphere. Important marketing position in Western Europe, as well as many other areas.

Shell Oil Co. — About two-thirds owned by Royal Dutch-Shell interests. A leading U. S. integrated company, progressive in exploration and active in petrochemicals.

Skelly Oil — Crude production exceeds refinery needs. Completion of merger with Tidewater Oil would establish one of major integrated units in domestic industry. Controlled by Getty Oil.

Socony Mobil Oil — Third largest company in world marketing. Also one of leading domestic integrated companies. Improving crude position and conducting foreign exploration. Streamlining management functions. Stock offers above-average yield.

Standard Oil of California — Dominant refiner and marketer on West Coast, engaged in all divisions of industry in the U. S. and abroad. Strong Eastern Hemisphere position, including interests in Arabian American Oil and Caltex.

Standard Oil of Indiana — The dominant midwestern refiner and marketer. Improving crude position. Foreign exploration substantial. Strong management and excellent long-term growth record.

Standard Oil of New Jersey — The world's largest oil company, conducting producing, refining, transporting and marketing operations in the U. S. and abroad. Western Hemisphere subsidiaries include Humble Oil, Imperial Oil and Creole Petroleum. Also major position in Eastern Hemisphere.

Standard Oil of Ohio — Efforts being made to expand crude output, now only about one-fourth of refinery runs. Company is a leading marketer in Ohio.

Sun Oil — Well managed integrated oil company. Also shipbuilding activities. Substantial addition to oil reserves through recent Venezuelan discoveries.

Sunray Mid-Continent — A moderate-size integrated company, with production in balance with refinery runs. Upgrading refinery operations and expanding exploration for crude oil.

Texaco, Inc. — Reference is made to the article entitled "The Ideal Merger of Texaco with Superior Oil" in our August 1, 1959 issue.

Texas Gulf Producing — Relatively small domestic oil producer. Has consistently added to reserves. Owns explatory acreage in Libya, which could be important.

Texas Pacific Coal & Oil — One of smaller oil and gas producers. Sinclair Oil owns 29% of stock. Earnings influenced by changes in Texas prorationing of output.

Tidewater Oil — Produces about half of refinery requirements. Merger studies underway with Skelly Oil. Both companies controlled by Getty Oil.

Union Oil of California — Integrated unit, with outlets concentrated in West Coast market, which is highly competitive. New oil discoveries could provide important addition to earnings. END

What 1959 Second Quarter Earnings Reports Reveal

(*Continued from Page 645*)

textile business is on the comeback trail, and the new tyrex viscose cord, manufactured by Rayon and others, has experienced very favorable demand. In fact, it is expected that tires of this material will be standard equipment on nearly all new cars beginning in 1960. With its recent record irregular and dividends suspended for several years, Industrial Rayon is necessarily speculative in flavor, but looks interesting on that basis.

Where More Moderate Gains Are Shown

Among industries showing more moderate gains, the *papers*, as evidenced by **Scott, International** and **Crown Zellerbach**, are typical. Each of these three has shown modest gains in both sales and earnings in the recent June quarter above the year-earlier and preceding quarters alike. More encouraging, each of them has also been able to accomplish simultaneous improvements in profit margins, despite what Scott describes as "intensive competitive pressure." One of the principal growth industries of the post-war era, paper suffered an excess-capacity relapse in 1957-58, but has now recovered to a new high level of sales. The outlook is favorable, although it is dubious whether the 1946-56 rate of growth will be resumed. **Georgia - Pacific**, although classified in the building industry, has expanded its timber holdings in recent years and has just built a new pulp and paper plant. Aided by the recovery in residential construction, it was able to boost sales by 30% in the June quarter, at the same time lifting its profit margin to give

excellent earnings of 81¢ a share. This company has grown in investment stature in the last several years and also qualifies as a sound natural resources issue.

The building stocks, **United States Gypsum, Johns Manville** and **Trane** exhibited favorable progress in the June quarter, although Trane, despite a healthy gain in year-to-year earnings, was among the small minority of companies that suffered a relapse in earnings. Despite this set-back, record earnings are expected for this air conditioning equipment manufacturer for the year as a whole. The other building companies are also likely to show continued moderate gains, as construction activity is high despite the tightness of mortgage money.

The *machinery* manufacturers, **Link Belt, Joy Manufacturing** and **Babcock & Wilcox,** showed a divergent pattern. Link Belt reported a moderate increase in sales and earnings above this year's March quarter and last year's June quarter. While these gains were nothing to get excited about, this manufacturer of conveying and power transmission machinery has recently enjoyed a substantial impetus in orders, so that full-year sales and earnings should recover to about $150 million and $4 per share respectively. Although this will not yet equal the 1956 and 1957 performance, the improvement should continue into 1960. Babcock has been able during the first half of the present year, to double its profit margin, yielding a higher net on lower sales than a year ago. The company is likely, however, to be hard hit by the steel strike, and earnings for the remainder of the year will show some decline. Because of the extended lead time in manufacturing heavy generating equipment, orders recently placed on Babcock's books will not be reflected in the income statement until 1961. Although sales of Joy Manufacturing's industrial division are still lagging, the mining and construction division was the beneficiary of gains sufficient to lift total sales in the recent June quarter 49% above the year-earlier level and to snap the company back on to the profit side of the ledger. Despite coal mining's own tardy recovery, the industry has nevertheless favored Joy with heavy bookings for its new loaders and continuous miners. The steel strike may check further recovery in the present quarter—the final quarter of Joy's fiscal year — but over the longer run higher prices for steel will both stimulate the demand for automatic machinery and transfer larger proportions of Joy's work to its foreign plants.

Sperry Rand, which somehow seems to have run out of steam since the merger between its two major components four years ago, has shown a cheering if belated earnings gain in the June quarter—which is the first quarter of its fiscal year. Sales swelled to $275 million from $210 million a year ago, and earnings per share to 31¢ from 13¢. While both sales and earnings were off from the March quarter, this reflects a seasonal pattern for Sperry. General McArthur has predicted full-year sales in excess of one billion dollars and earnings between $1.25 and $1.50 a share. This would establish by a wide margin a new record for sales volume but would not represent more than a partial recovery for earnings, highlighting the fact that the company's essential problem is its low profit margin. Well diversified Sperry remains promising on a long-term basis, but it does not look like there need be any hurry in buying its shares.

Among the 102 companies in both lists, **Texas Instruments** wins the prize, by a wide margin, for the sharpest sales increase between the successive June quarters; this was a mammoth gain of 137%. (Only three other companies, American Motors, Jones & Laughlin and National Steel were also able to double their sales.) Between the same periods Texas Instruments managed to lift its profit margin, resulting in a near tripling of earnings. This volatile, non - dividend paying stock is still too speculative for the conservative investor, but this issue has now clearly emerged from the small company category. The June quarter performance of a sharply contrasting organization, **American Can,** was also encouraging in that it revealed a healthy gain in both sales and earnings, despite the recent "one-

man-out-of-step" reductions in the price of metal containers. If they are able to hold the volume, as they show signs of doing, the can companies should be able to effect economies that will give them a considerable advantage over the do-it-yourself tendency in the packing and canning industries.

In Summary

While we have been at some pains to point out the divergencies in the recent June quarter earnings reports, the really significant factor is their remarkable unanimity — a unanimity that would be almost boring if it did not make such pleasant reading for stockholders. Of course, these interim statements, once perused, become history, and interest shifts rapidly to the results for the current quarter. It is no bold prophecy to say that these will be good, even though the rate of gain over last year's September quarter, when the recovery first emerged from its swaddling clothes, must necessarily show some deceleration. This outlook will remain valid whether the steel strike is protracted or not, as the large accumulated inventories of steel shapes should assuage any serious pains industry is likely to feel through early fall. Thus, the fourth quarter is likely to be the critical one. At the present writing the strike, already five weeks old, looks far from early settlement, as both sides have built strong ramparts from which they will not lightly retreat. This picture can, of course, change quickly, but it does suggest caution in appraising full-year earnings solely on the basis of first-half results. END

Mid-Year Reappraisal of Insurance Stocks — Fire, Casualty and Life

(Continued from page 659)

able as death benefits.

4. *Expense control* through the use of new electronic data processing machines. Expenses of operation, which account for less than 20% of the life insurance premium dollar, are on the rise in the life field as they have been for all types of business enterprise for the past several years. However, the many bookkeeping, accounting and computing operations, which are typical of the life insurance business lend themselves particularly well to the advanced business machines. This should help the average life insurance company to meet the problems of inflation in wage costs as well or better than many other businesses.

All the foregoing factors have continued to operate to the advantage of the life insurance companies over the past decade. They give promise of continuing to be plus factors in the future although it is possible that the rate of progress may not be as rapid as it was in the decade of 1945-1955.

Coping with Federal Tax Problems

During the past year or two an important factor influencing the prospects for the stock life insurance companies, and the market action of their equities has been the uncertainties surrounding their Federal income tax liabilities. This question has now been resolved by the enactment within the past few months of the new Life Insurance Company Income

Tax Law of 1959. Just how much this will increase the taxes of individual companies remains to be seen as the application of the provisions of the tax to the various companies is revealed. While the law increases the over-all rate of taxation on net investment income from about 7.8% to close to 15% and applies a tax on underwriting gains, the over-all Federal income tax bill for the life insurance industry for 1958 is not expected to be much more than the $500 million reserved out of earnings last year. In general, the new law has been developed after considerable study and is believed to make due allowances for the many complex facets of the life insurance business. While it will increase the tax burden of life insurance companies generally, the law does not seem to be unfair or punitive in nature. It may in some instances make slower the rate of growth in earnings and equity values of life insurance companies. However, this law is something that the life insurance industry should be able to adapt itself to and live with. The clarification of the uncertainty which existed while the law was being formulated should be beneficial. In other words, the life insurance business continues to be a dynamic one with excellent future growth prospects.

For the 15 companies included in the accompanying table, the average rate of payout of dividends to adjusted net earnings is approximately 16.9% and the average yield is only about 1%. However, this group of growth stocks is selling at less than 18 times adjusted net earnings. This price-earnings ratio is considerably less than that currently applied by the stock market to other types of growth stocks. END

More Jet-Up and Go for the Airlines

(Continued from page 655)

are smaller than had been anticipated. It is difficult to say to what extent unfavorable market condition for obsolete craft may retard the transition to jet liners. It must be viewed, however, as a temporary restraining influence on earnings.

Another factor having a bearing on the rate of replacement of piston planes with jets is the ability of airlines to finance their ambitious equipment requirements. Generally favorable economic conditions would prove helpful in raising additional capital — perhaps along the lines recently followed by Pan American, in marketing an issue of convertible debentures. Securities of this type tend to ease the cost of financing, but set up a basis for future dilution of earnings that must be taken into account in estimating prospective per share results.

Comments On Certain Companies

With these observations as a background, we may now take brief glimpses at recent developments affecting individual companies. One of the leaders is **American Airlines,** which has reaped the benefit of the public's avid acceptance of jet travel, as well as the jet surcharge in rates. Revenue passenger miles are headed for a new record, reflecting a high utilization factor for the company's Boeing 707 fleet. Despite a slow start, due in part to labor trouble, 1959 earnings seem likely to hit a new high and may approach $3.50 per share, compared with $1.94 in 1958.

If it had not been for favorable economic conditions and increased vacation travel, **United Airlines** would have felt more keenly the aggressive competition from jet service introduced by American and TWA. Despite the public's preference for the faster planes, United has been able to increase revenue passenger miles about 4 per cent over the corresponding period of last year and to maintain a fairly satisfactory load factor on its piston equipment. However, earnings are being penalized by heavy break-in costs on the fleet of Douglas DC-8's to be put into service in the final months of the year, and it is thought that net profit may range around $2.50 per share this year, against $3.88 reported for 1958.

With tourist travel to Europe reaching record proportions, **Pan American World Airways** has achieved remarkable records in handling traffic on its Atlantic routes. As a result, it is possible that revenue passenger miles may climb to an all-time high this year. Earnings for 1959 may set a record at about $3.00 per share, as against only 78 cents in 1958. However, in the case of Pan American, capital gains from sale of obsolete planes may fall short of earlier forecasts. Need for substantial new capital seems likely to be a restraining influence on the dividend policy.

Trans World Airlines has also felt the favorable effect of travel to European centers, as well as the increase in demand for space on transcontinental jet craft. In this instance, it is difficult to make worthwhile earnings projections, but current indications point to a return to profitable operations for 1959, as contrasted with deficits for the last three years.

With the benefit of a high level of vacation travel, not only through the winter but also well into the summer, **National Airlines** enjoyed an excellent year in the fiscal twelve months ended June 30. With introduction of jet service for the first time in domestic transportation (through leasing of Pan American equipment) the line has done a "land office business" on its New York-Florida route. However, a rival will offer jet competition on the route this Fall. National hopes to stimulate traffic by reduced fares for tourist service between New York and Florida.

Among the smaller trunklines in a position to benefit from new routes, **Delta Air Lines** operates a system connecting Chicago, Detroit and New York with southern cities, as well as the Caribbean area. Despite competition, traffic

continues to show good gains. With jet service scheduled for this fall and new equipment financing satisfactorily arranged, the company appears to have interesting growth potentials.

Northwest Airlines is benefitting from its new Chicago-Florida run and its international operations offer the prospect of long-term growth. **Capital Airlines** continues to face problems that followed introduction of jet-prop planes, which have lost some of their earlier advantages, now that newer equipment has been acquired by competitors. END

Spain Moves Toward Free Enterprise

(Continued from page 652)

carry out the economic stabilization program in good faith. No one expects this to be done overnight. The various Government-sponsored autonomous and semi-public agencies that run steel mills, petroleum refineries, fertilizer plants, and other enterprises will probably have to stay in business for some time. It may also be necessary to proceed slowly in dismantling controls in order to protect many untried enterprises, public and private, from too sudden exposure to competition. But the Franco Government must show good faith by discouraging monopolistic practices and by giving more freedom than heretofore to private enterprise.

►The restraints imposed on public and private investment activity are certain to result in some business slowdown and unemployment. With prices and living costs still rising, and likely to continue to advance for some time — as imports of food and other staples are paid for with the devalued peseta — the purchasing power of the wages earned may be expected to decline. All this means increased hardship for the Spanish laboring classes which have already borne the brunt of inflation. But no serious labor trouble is anticipated and the authorities are hopeful of avoiding a price-wage-cost spiral. The demands of Spanish labor have been moderated in the past by the existence of much underemployment.

►Moreover, there is a good chance of containing the inflationary forces. First, Spain may be blessed with one of its most bountiful harvests in recent years. This may take some pressure off food prices. There is already some talk of diverting American economic aid from the purchase of foodstuffs bread-grains, vegetable oils) into larger purchases of industrial raw materials and capital goods. This would help to expand industrial output.

►Second, the pressure on available natural resources that stemmed from the construction of American naval and air bases is reported to be on the decline. Only $30 million in contracts is now reported to be outstanding out of $290 million, the aggregate value of all contracts placed.

►Third, ever since the second half of 1958 there have been indications of a decline in the budgetary deficit; government revenues have been increasing as a result of the earlier tax reforms, while greater discrimination has been shown in spending for public and semi-public projects. Finally, some relief is expected to be obtained from the liquidation of the excessive inventories which were built up in anticipation of continuing inflation and peseta depreciation.

►Some improvement may also be expected in Spain's international payments position. There should be a substantial increase in official receipts from tourism and other invisible transactions, which up to now have been feeding the black market for the peseta. The unification of peseta rates should also end the state of affairs in which it was more profitable to import by those who held import licenses than to produce for export. As long as the producers expected to be paid a premium there was no incentive to lower the production cost of exports.

►Some alleviation of Spain's international payments problem may also be expected from the policies adopted last March. Agriculture and any industry that can efficiently earn foreign exchange or help to save it are to be given preferential treatment in allocating investment funds. Production of minerals, citrus fruit and vegetables is to be encouraged to promote exports, and production of fertilizers and petroleum to save foreign exchange.

But in the Final Analysis . . .

If the Franco Government is really determined to put an end to inflation and to convert its monopolistic state into a more flexible economy, Spain faces a year of major adjustments. There is a reasonable hope of success because the international rescue operation got under way before the Spanish economy became too distorted by inflation. The country has gone a long way toward building and broadening its economy since American economic assistance began to arrive in 1954. In the relatively short period of five years, industrial production increased nearly 50 per cent and real per capita income by about 25 per cent. The country has extraordinary luck in having a bumper crop this year, and its best customers — the Western European countries — appear to be headed into a period of remarkable business revival. This should help Spain in marketing its products. One of the last weak spots in the European economy is thus on the mend — a development which should benefit all Free Europe.

END

A Realistic Appraisal of the Aircraft Industry

(*Continued from Page 663*)

sance programs involving large sums for research and development and possible important production contracts in the future. For several months now, airlines have been receiving the company's Electra jet prop transport plane and orders are expected to continue at a satisfactory level. Meanwhile, the Air Force is finding a variety of applications for the Lockheed C-130 Hercules, a turboprop transport.

Looking at these and other aero-space manufacturers, one can also see the increasingly important role of the electronics industry. Some of the major missile manufacturers include **Philco** and its Sidewinder for the Navy and Air Force and **Raytheon,** responsible for the Army's Hawk—both will keep production lines busy for some time to come. **McDonnell Aircraft** has come to the fore in the space industry by receiving the contract for the Project Mercury, Man in Space program. It also looks forward to substantial orders for its advanced naval fighter. **North American Aviation** has demonstrated its capabilities with the X-15, the most advanced aircraft now known. It looks for substantial orders from the Hound Dog, a 500-mile missile designed to be launched against ground targets from the B-52 bomber. The company has also developed a jet trainer for the Air Force with its own funds and will benefit by a $24.5 million procurement program authorized by Congress. However, any new shifts in Pentagon air defense programs could jeopardize the company's F-108 long range interceptor plane.

END

Our Annual Mid-Summer Reappraisal Of Commodity Price Trends

(*Continued from page 638*)

continue through next summer and fall—and be at its low point just about election time.

Will Cattle Prices Hold Up?

Cattle prices are likely to be relatively stable the rest of this year. Marketings of fed steers and heifers will remain large since the number of cattle and calves on feed July 1 in 13 leading states was 10 per cent greater than last July. Non-fed cattle slaughter this summer will be as large or a little larger than the low volume last summer. Cow slaughter will continue small but is expected to climb above last summer's unusually low rate. Some declines are possible in the price of cows and feeder cattle.

Demand for meat is expected to continue strong. Retail prices of meat are expected to be unusually stable the next few months, except for lower pork prices.

Dairy Products

Prices for dairy products are stable near year-earlier levels. Milk production on farms in the first half of 1959 was slightly below a year earlier. Total civilian consumption is up slightly and purchases under the support program are down a little. Retail prices for fluid milk declined less between the first and second quarters this year than last. Beginning with April, they have been a little above last year. But with record consumer incomes, consumption of fluid milk per person has been fully equal to a year earlier, if not a little higher. Cheese consumption is holding near last year's high levels.

The outlook is for limited seasonal egg price rises in the next few months. The increases, as usual, will be most pronounced for large eggs of the better grades. U.S. average prices, however, are not likely to exceed 1958 for any length of time until possibly the last month or two of the year.

Outlook for Poultry

Broiler prices picked up noticeably during the last half of June. A further rise is likely, because weekly chick placements have been declining, and since early May have been below the year before. The reduction in broiler marketings usually is greatest in August when consumer demand for frying chicken is usually at its seasonal peak.

The 1959 turkey crop is likely to exceed slightly the record 81 million turkeys raised in 1957. The increase from last year in the turkey crop came in the hatches of May and earlier. This indicates larger slaughter in the late summer months than last year, much of which will move into storage until the holidays. Turkey slaughter after October is likely to be below 1958 since the June hatch was smaller than a year earlier, and settings have declined further since. This, coupled with the facts that part of the increased turkey crops already has been slaughtered and eaten, and that storage stocks are below last year, are plus factors in the turkey price outlook for the closing months of this year.

Other Commodities

Soybean prices are expected to remain this summer about the same as last year—in the neighborhood of the 1958 loan rate of $2.09 per bushel. But around harvest time, when the 1959 soybean crop amounts to some 531 million bushels—down 7 per cent from last year—but 63 per cent above average—prices probably will adjust to the lower 1959 loan rate

(*Please turn to page 682*)

(Continued from page 680)

of $1.85 per bushel. Processors and exporters of beans likely will reduce their inventories to a minimum in anticipation of lower prices for new soybeans.

Soybean crushings are expected to reach a high of 400 million bushels, compared with 354 million bushels last year. Soybean exports continue to run ahead of last year and are expected to set a new record of about 105 million bushels for the 1958-59 marketing year. This compares with 85 million bushels the previous year.

Total exports of *soybean* and *cottonseed oils* for the entire 1958-59 marketing year may be about 1.4 billion pounds compared with 1 billion last year and the record 1.2 billion in 1956-57.

Lard output in 1959-60 is expected to increase about 10 per cent, reflecting mainly a rise in hog slaughter.

The *feed* supply this year will be bigger than ever, what with a 1959 crop producing a tonnage a little larger than that of last year. Prices will be down. In the main, feed prices are expected to seek the level of the generally lower 1959 price supports. On the other hand, smaller crops of *oats* and *barley* are expected to hold prices of these grains higher relative to the support rates than in 1958. The big feed grain crop, of course, is corn. *Corn* in 1959 is expected to total about 4,173,000,000 bushels, about 400 million bushels more than last year's record!

The price of *wheat* will be at about the support level. The supply of wheat—there is enough on hand and in sight to meet all requirements for more than two years—guarantees a stablilized price. **END**

For Profit and Income

(Continued from page 665)

sumer income, profit prospects remain favorable, even if less than dynamic, for general-merchandise retailers. The competitive threat posed by discount-house retailers apparently has been watered down largely. Leaders in the latter field started small, with low overhead costs, and fared well while they stuck to original concepts. But they have felt impelled to expand into junior department store operation, to start new units in suburban shopping centers, and to provide delivery and other services — all of which cost money. An example is Korvette (E. J.) Inc. Profit rose from $0.03 a share in 1950 to $1.26 in the 1956 fiscal year; but it was lower in the two subsequent years and remained under the earlier peak, on an estimated basis, for the latest fiscal year, changed to end July 31. The stock reached a high of 25⅞ in 1956, but is now at 14 and at least amply priced. We still think that selected department store stocks are reasonably priced on improved 1959 earnings, that further 1960 profit gains can be expected, and that there are potentials for further appreciation in market prices. Among others, we like Allied Stores, Gimbel Bros., Klein Department Stores, May Department Stores and Mercantile Stores at this time.

Unpromising

Based on recent and current performance, which probably is generally in line with earnings prospects, the following stocks appear unpromising at this time: ACF-Wrigley Stores, Admiral Corp., American Bank Note, American Smelting, American Stores, Burroughs Corp., Carrier, Chrysler, Disney, Fenestra, General Portland Cement, Kress, National Cash Register, Paramount, Raytheon, Thiokol and Trane Company.

A Speculation

Recent trends appear to promise 1959 earnings of $5.00 or more a share for Copperweld Steel, against 1958's $1.76. With sales around $100 million a year, the company makes stainless, alloy and regular steels. Its principal finished products are copper-covered steel wire and steel tubing. There could be good potentials in introduction of aluminum-covered steel wire. Most operating divisions are unaffected by the steel strike. A sizable 1960 profit gain now seems indicated. The dividend is $2.00. At 45, the stock has more than doubled from its 1957 low, but is selling around 9 times earnings. The valuation is moderate, compared with an average price-earnings ratio around 10.0 for the four years 1955-1958, and with a maximum ratio of nearly 17.0 in 1957. There is apparent basis for speculative buying. **END**

Answers to Inquiries

(Continued from page 672)

share, maintaining last year's rate.

Each of the companies in the Heinz group, which are located in the U. S., Canada, Great Britain, Australia and Holland — showed an increase in net sales over last year, and each company showed an improvement in its contribution to consolidated income.

Balance sheet as of April 29, 1959 showed a strong financial position with total current assets $132,087,694, total current liabilities $46,366,393, leaving net current assets of $85,721,301. Net tangible per common share was $72.54.

Prospects for the company continue favorable as U. S. operations have registered a significant improvement and operations abroad continue to grow and are expected to maintain their contribution to consolidated accomplishments.

Island Creek Coal Co.

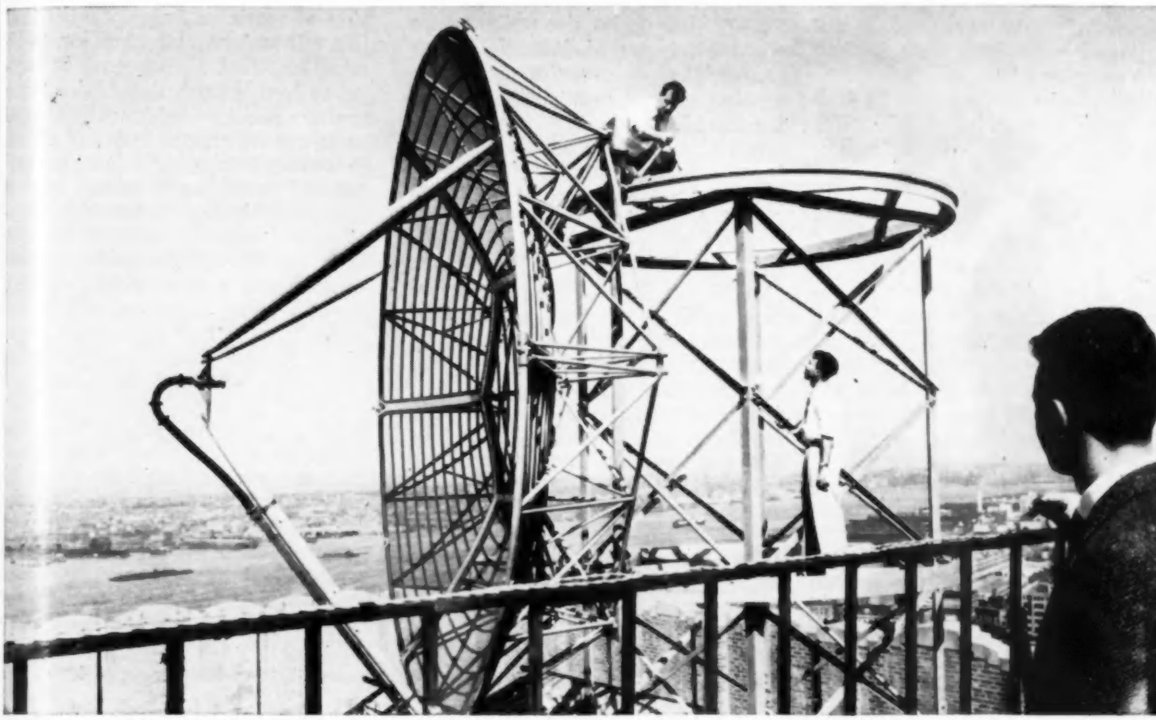
"Please furnish recent earnings of Island Creek Coal Co. and indicate what effect the steel strike will have on the company's operations."

P. O., Sandusky, Ohio

The consolidated net profit of Island Creek Coal Co. and its subsidiaries for the first 6 months of 1959 was $2,242,653 compared with $1,855,894 in the same period of 1958. The 1959 net profit is equivalent to $1.00 per share on the 2,168,426 common shares now outstanding, as compared with 86 cents per share on the same num

(Please turn to page 684)

THE U.S. TREASURY SALUTES THE COMMUNICATIONS INDUSTRY

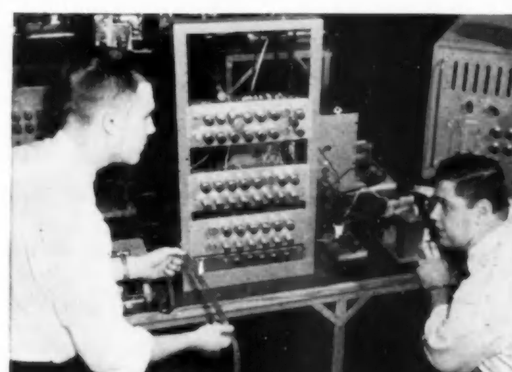


..and its people who buy Savings Bonds and strengthen America's Peace Power

The hundreds of thousands of Americans who earn their living at work with the telephone and telegraph industries are proud of the scope and skills of their service in local and worldwide communication. They're proud, too, of the vast and varied help their industry is giving to our national security.

Thousands of these telephone and telegraph people have a personal hand in building up America's Peace Power, too. They do this by purchasing U.S. Savings Bonds. Their regular purchase of Shares in America helps these patriotic people to reinforce their own security after retirement and to establish current reserves for such sound family projects as new homes and higher education.

It may be that your company has not recently shown your employees the advantages of buying bonds on the Payroll Savings Plan. If so, why not conduct a person-to-person canvass now? Contact your State Savings Bond Director for Payroll Savings promotion materials and personal assistance. Or write to the Savings Bond Division, U.S. Treasury Department, Washington 25, D. C.



Like so many thousands of their fellow craftsmen in the Industry, these young employees are making regular use of their company's Payroll Savings Plan to contribute to America's Peace Power.

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ber of shares in 1958.

The consolidated net profit for the second quarter of 1959 was $1,021,687 compared with $664,-307 in the same quarter of 1958. Per share earnings for the second quarter of 1959 were 45 cents compared with 29 cents in the same quarter of 1958.

Coal produced in the first 6 months of 1959 totalled 6,912,769 tons as compared with 4,839,354 tons purchased in the same period of 1958. In addition, 863,540 tons of coal produced by other companies was marketed by Island Creek sales organization during the first half of this year as compared with 1,326,459 tons in the similar period of 1958. National production of bituminous coal in the first 6 months of 1959 approximated 209 million tons, a 12 million ton increase over the same period of last year.

Primarily due to the high production rate of the steel industry which resulted in an expanded market for company's metallurgical coal production in the second quarter was 57% greater than in the second quarter of last year. During this period all of the company's mines experienced nearly full operating time. However, coal prices in practically all markets were lower than in the second quarter of last year despite the granting of wage increases of $2.00 a day under the union wage contract executed last Fall. Depressed prices occasioned by excessive supply over demand, and increased wage costs greatly restricted first half earnings. During the second quarter the export market continued to reflect reduced demand, sales to the retail market were comparable to those of a year ago, and shipments to the Great Lakes were retarded due to the fact that an unusual accumulation of ice flows delayed the opening of the lakes for navigation. The company's engineering and operating departments have completed studies of the new Guyan Division properties, and funds have been appropriated for more modernization of these mines. This new equipment will have been installed by the end of this year and will result in lower costs and improved efficiency at these mines.

It is now difficult to forecast third quarter sales and production because of the current steel strike. Sales commitments for the third quarter had previously indicated full running time at all of company's mines upon resumption of work on July 13 following the miners' annual vacation period. The steel strike now in progress has caused suspension of a major portion of metallurgical sales commitments and will result in reduced running time for certain of company's mines and a complete shutdown for the duration of the strike of from three to five of the other mines. Sales commitments for other than metallurgical purposes will be adversely affected by chain reactions to the strike, especially by the idling of the Great Lakes ore vessels which normally transport coal as a return cargo. Upon the resumption of steel operations Island Creek anticipates capacity production at its mines for the balance of the year.

Dividends last year totalled $2.00 per share and 50 cents quarterly has been paid thus far in the current year. END

★ ★ ★ Book Reviews ★ ★ ★

Yearbook and Guide To Southern Africa and Yearbook and Guide To East Africa

Edited by A. Gordon-Brown

These two guide books contain the latest and most complete information on two extremely important areas of the African continent. Recognized as the most reliable of reference books, much of the material in these handbooks is not available anywhere else in the English language.

Users of these books will find them a handy guide on the government, history, religion, customs, education, geography, climate, flora and fauna, hunting, game preserves, where to stay, what to wear, how much to pay, and scores of other important details of these large African areas. Business men will also find up-to-date statistics on mining, water power, agriculture, cattle-raising, banking, manufacturing, imports and exports, populations, communications, native labor, railroads, etc.

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The **GUIDE TO EAST AFRICA** covers Eritrea, Somaliland, Kenya, Uganda, Tanganyika, Zanzibar, Portuguese East Africa, the Congo, Mauritius, Madagascar, Reunion, Seychelles, etc. It contains 16 maps in full color, 22 maps in black and white plus a 14½ x 20 inch map of Africa plus a large 22 x 27 inch Planning Map of East Africa. This book also reveals much detailed information on vital statistics, resources, culture, education, mountaineering, history, etc. It also contains subject and geographical indexes, table of distances, hotel tariffs, and much more valuable data for the tourist, traveller and businessman.

H. W. Wilson, N. Y. $3.00 each

Canadian Mines Handbook 1959

This carefully edited manual of Canadian mining companies supplies a wealth of data on mining developments in our northern neighbor.

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These are among the many facts that may be gathered from a careful study of the 1959 edition of the Canadian Mines Handbook, just published.

The new edition details activities of thousands of mining companies. As usual the Canadian Mines Handbook provides all essential statistical data, such as directors, capitalization, and financial position, of Canadian mining companies.

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GULF PRESS CONFERENCE 2

A service of Gulf Oil Corporation in the cause of creating—through the facts as we see them—a fuller understanding of the oil industry.

Oil-hungry America, 1959

Oil is a huge business. It must be to meet America's appetite for oil. Yet as swiftly as this appetite has grown since Colonel Edwin L. Drake brought in the first well 100 years ago—as enormous as it is—it emerges more unknown than understood. These days, how much oil is enough?

Q. Perhaps we should first ask this: how much oil do we really have today?

A. Let's start with Colonel Drake as a reference point. In 1859, he coaxed 2,000 barrels of oil from the ground. Last year, America's total flow was 2,450,000,000 barrels. And the world's known proven reserves were estimated at 252,000,000,000 barrels.

Q. That sounds like enough oil to keep us running for quite a long while.

A. Not very long. If you limit the reserves to those in America alone, the best experts say that they offer us less than a dozen years' supply.

Q. That brings us to our appetite for oil. Just how big is it?

A. To begin with, we really have more than one appetite. There is our need for oil as energy. There are our consumer product needs. And not least, our national defense needs.

Q. How importantly does oil figure in our energy requirements these days?

A. You can accurately call oil the economy's number one energy food. A century ago, we did 94% of our work with muscle power. Today, in exact reverse, fuel energies account for 94%. And over the 100 years, the share of these energies supplied by oil and gas has climbed to 72%. It is still climbing.

Q. To bring this job down to cases, what of oil in industry?

A. For one thing, our industrial output as measured in gross national product has increased by 2,253% in this century. And oil has played a key part not only in moving industry's wheels, but also in lubricating them. Oil heats some 700,000 factories—some 9,000,000 private homes as well.

Q. Let's turn to our transportation needs. What is oil's role in supplying energy here?

A. At last count, we had 56,000,000 cars and 11,000,000 trucks and buses on our roads. They were using gasoline at the rate of 53,000,000,000 gallons a year. Add to these 17,923 oil-powered ships and 28,331 diesel locomotives.

Q. You mentioned our appetite for consumer products. Is this, strictly speaking, an oil appetite?

A. You judge. Oil is an essential ingredient in over 2,500 things we use every day. The list grows too fast to keep count.

Q. What are some of the items we would find on this list?

A. One example is the insecticides we are using in almost three times the quantity we did ten years ago. There is the asphalt we use on 80% of our paved roads and will use on many of the 85,000 miles of new roadway we'll be needing soon.

Q. Don't a good many of these products come even closer to home than this?

A. Oil lubricates from 25 to 30 electric motors in today's typical home. And beyond that, you may wash, shave and comb wholly with oil-derived products. Oil probably helped produce, transport and cook your last meal. Oil not only moves your car—it makes possible its tires, upholstery, glass, paint.

Q. That leaves national defense. Isn't this appetite for oil a pretty obvious one?

A. Perhaps. But not so its extent. In World War I, more than half the supplies our overseas troops asked for and got were oil supplies. The figure often ran to 80%. And since then, our wars and war machinery have greatly increased that appetite.

Q. Can you somehow put our defense needs today into more specific terms?

A. As just one example, it takes five big 5,000-gallon tanker trucks to fill up the tanks of one of our big jet bombers.

Q. Taking our total appetite, what can we expect will happen to it from here?

A. You can safely say an oil-hungry America is getting even hungrier. In the next 10 years alone, we estimate our oil needs will rise by 40%.

We cordially welcome further questions and comment. Please address them to Gulf Oil Corp. Room 1300, Gulf Bldg., Pittsburgh 30, Pa.

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